

Legislative Budget Analysis 2009 Biennium

Volume 5—Agency Budgets

Natural Resources and Commerce
(Section C)



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Legislative
Fiscal Division



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Legislative Budget Analysis

2009 Biennium



Volume 5 – Agency Budgets

Presented to the Sixtieth Legislature

Submitted by the
Legislative Fiscal Division

Legislative Finance Committee

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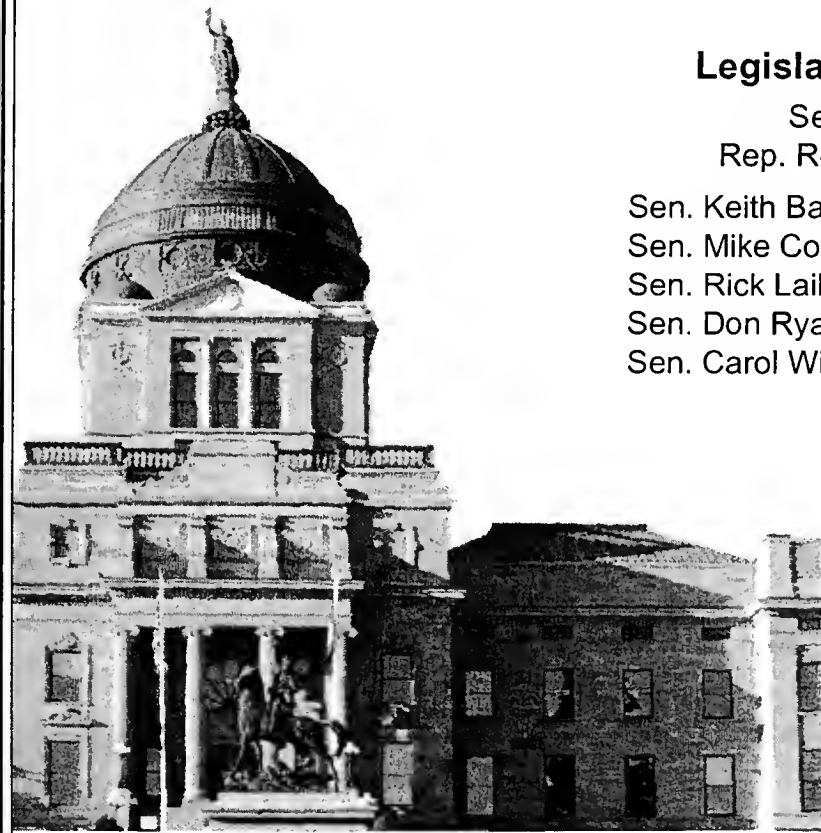
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AGENCY SUBCOMMITTEE GROUPINGS

The following sections (A through F) provide a detailed explanation and analysis of the executive budget for each agency and agency program that contains appropriations in HB 2. The agencies are grouped by functional categories that mirror agency groups by appropriations subcommittee. The groups are summarized below. Programs funded with proprietary funds are not funded in HB 2, but an explanation and analysis of these programs are included in each agency narrative for the purpose of legislative rate-setting.

GENERAL GOVERNMENT AND TRANSPORTATION (Section A)

- Legislative Branch
- Consumer Counsel
- Judiciary
- Governor's Office
- Secretary of State
- Commissioner of Political Practices
- State Auditor
- Transportation
- Revenue
- Administration
- Public Defender
- Montana Consensus Council

HEALTH AND HUMAN SERVICES (Section B)

- Public Health and Human Services

NATURAL RESOURCES AND COMMERCE (Section C)

- Fish, Wildlife, and Parks
- Environmental Quality
- Livestock
- Natural Resources and Conservation
- Agriculture
- Commerce

CORRECTIONS AND PUBLIC SAFETY (Section D)

- Crime Control Division
- Justice
- Public Service Regulation
- Corrections
- Labor and Industry
- Military Affairs

EDUCATION (Section E)

- Office of Public Instruction
- Board of Public Education
- School for the Deaf and Blind
- Commissioner of Higher Education
- Community Colleges
- University Units and College of Technology
- Agricultural Experiment Station
- Extension Service
- Forestry and Conservation Experiment Station
- Bureau of Mines & Geology
- Fire Services Training School
- Montana Arts Council
- State Library Commission
- Montana Historical Society

LONG-RANGE PLANNING (Section F)

- Long-Range Building Program
- State Building Energy Conservation
- Treasure State Endowment Program
- Treasure State Endowment Regional Water System
- Renewable Resource Grant & Loan Program
- Reclamation & Development Grant Program
- Cultural and Aesthetic Grant Program
- LRB Consolidated Information Technology Pgm

Where can you find each section in the *Legislative Budget Analysis 2009 Biennium*, Volumes 3-7?

- Volume 3 contains Section A
- Volume 4 contains Section B
- Volume 5 contains Section C
- Volume 6 contains Section D
- Volume 7 contains Sections E & F

AGENCY BUDGET ANALYSIS (ROAD MAP)

The purpose of the "Agency Budget Analysis" (LFD Volumes 3 and 4) is to provide a resource for legislators and members of the public to understand and allow for action on state agency budgets. It is designed to be a working document for use by the joint appropriations subcommittees. It does this by:

- Detailing components of the executive budget
- Raising budget and other issues for legislative consideration

This section provides a roadmap for using the Agency Budget Analysis volumes by discussing each component.

BUDGET TIERS

The section is constructed based on the statutory requirement that the budget be presented in three tiers:

1. Base budget;
2. Present law budget; and
3. New proposals.

(For a further explanation of these tiers and how they are derived, see page 1 of the "Reference" section in Volume 1, or the publication entitled "Understanding State Finances and the Budgeting Process", available through the Legislative Fiscal Division and on the Internet at <http://leg.state.mt.us/css/fiscal/reports.asp>) The analysis is presented in such a way as to allow the legislature to see and act on each present law adjustment and new proposal made to the base budget to derive the executive budget, by summarizing and raising issues with those adjustments.

LEGISLATIVE FISCAL DIVISION (LFD) ISSUES AND COMMENTS

While LFD staff has written the entire analysis document, parts are meant strictly to explain what is in the executive budget in a way that does not justify or advocate the executive position.

The heart of the analysis is in two areas:

1. The LFD issues and comments provided on the proposed budget. If the LFD analyst has raised an issue with anything contained in the executive budget or with any other aspect of agency operations and expenditures, it is included as an "LFD Issue". The analyst may also provide additional information to aid the legislature in its decision making under the heading "LFD Comment". All issues and comments are clearly identified in the narrative; and
2. Other issues and options. In order to provide the legislature with alternatives to the executive budget, as well as budget-making flexibility, LFD staff has provided other issues and options for consideration by the legislature.

COMPONENTS OF THE AGENCY BUDGET ANALYSIS

For all multiple program agencies, the narrative is divided into two parts:

1. The agency narrative; and
2. The program narrative.

Agency Narrative

The agency narrative provides an overview of the executive budget and other issues and options for that agency. Since the legislature appropriates at the program level, only issues raised in the analysis with an agency-wide or multiple-program impact are discussed at this level. All other discussion occurs within the relevant program narratives.

Each agency narrative has the following components.

1. The **Main Table** shows the executive budget request by year, including separate columns showing present law adjustments and new proposals. The reader can use this table to not only get a general idea of the size and funding of the agency, but also view any changes proposed by the Governor.
2. **Agency Description** is a brief description of the agency.
3. **Agency Highlights** is a table showing the principal factors influencing the budget and any related discussion. It is designed to aid the reader in gaining an understanding of the overall agency budget or significant budget areas.
4. **Agency Discussion** provides additional information or overarching discussion. In addition, if the previous legislature funded any new initiatives of an agency-wide nature, a brief update is provided.
5. **Funding** is a table and related discussion that shows the total biennium funding, by program and fund type, proposed by the Governor.
6. **Biennium Budget Comparison Table** compares adjusted actual FY 2006 expenditures and appropriations for FY 2007 (the 2007 biennium base) to the 2009 biennium executive budget so the reader can get a general sense of the change between biennia.
7. If included by the executive, a discussion of the following two types of proposals is included, each with LFD comments as appropriate:
 - o **Supplemental Appropriations** discusses supplemental appropriations recommended by the Governor for FY 2007, or supplemental appropriations approved in FY 2006
 - o **Reorganizations** details any major reorganization that took place in the 2007 biennium or is proposed by the executive for the 2009 biennium
8. **New Proposals Summary Table** summarizes all executive new proposals for the agency. An explanation of and comments on each of the new proposals is included in the relevant program narratives.
9. **Language** includes any agency-wide language proposed by the executive.
10. **Executive Recommended Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the agency. This section is designed to alert the legislature to other legislation not included in HB 2 that could have a bearing on the agency budget and operation.
11. **Agency Issues** is a discussion by the LFD analyst of any identified agency-wide or multi-program issues. Otherwise, all discussions of adjustments and attendant issues are included in the relevant program narratives.
12. **Elected Officials New Proposals** lists new proposals advocated by agencies headed by either an elected official or the Board of Regents but not included in the executive budget.

Note: The main and biennial budget comparison tables, the agency description, and the highlights and funding tables are included in each agency narrative. However, the other components are “optional”, indicating they are included only if circumstances warrant.

Program Narrative

Narratives detailing each agency program follow the agency narrative. The program narrative contains the following components.

1. The **Main Table** contains the same information as the agency main table for each program of the department, including the adjusted FY 2006 base used to derive the budget, the total present law adjustments, new proposals, and the total executive budget, by fiscal year.
2. **Program Description** is a short description of the program and its functions.
3. **Program Highlights** is a table showing the principal factors influencing the budget and any related discussion.
4. **Program Narrative** details any points of overall program discussion by the LFD analyst. If the previous legislature funded any new initiatives, a brief update is provided.
5. **Funding** details program funding as proposed by the executive, and any issues raised by the LFD analyst.
6. **Program Reorganization** details any program reorganizations that took place in the 2005 biennium or that are proposed by the executive for the 2009 biennium.
7. The **Executive Present Law Adjustments Table** delineates the major present law adjustments included by the executive, by fiscal year and funding source. The table is divided into two sections:
 - o Statewide present law adjustments, which include most personal services adjustments, the executive’s vacancy savings recommendation, and adjustments due to fixed costs and inflation
 - o Other present law adjustments proposed by the executive
8. **Executive Present Law Adjustments** discusses each adjustment proposed by the executive in more detail. The section begins with a brief discussion of the factors that drive the statewide present law adjustments, as needed. This paragraph is followed by a description of each adjustment proposed by the Governor. The LFD analyst writes the adjustment descriptions based upon justifications submitted by the executive. It should be noted that it is the responsibility of the LFD analyst to explain a requested change, but not to advocate for or attempt to justify that request. If the LFD analyst has raised an issue with the adjustment, it is presented when the adjustment is discussed.
9. The **New Proposals Table** shows each new proposal requested by the executive, by fiscal year and funding source.
10. **New Proposals** discusses each new proposal in more detail. If the LFD analyst has raised an issue with the proposal it is presented with that new proposal. As with present law adjustments, the LFD has written these explanations based upon submissions by the executive. For certain new proposals (and significant present law adjustments), a discussion submitted by the agency (with editing for clarity and brevity by LFD staff) is included that discusses goals, performance criteria, milestones and timetables, and other information designed to provide the legislature with information with which to evaluate the proposal. LFD staff provides any comments or issues with the submission.
11. **Language** recreates any program specific language proposed by the executive, with LFD comments as appropriate.
12. **Executive Recommended Legislation** is a listing and discussion of any legislation with a likely fiscal impact proposed by the executive and pertinent to the program.
13. **Other Issues** contains any issues identified by the LFD analyst unrelated to a specific present law adjustment or new proposal.

The legislature does not appropriate enterprise funds (which fund operations that provide goods or services to the public on a user charge basis) or internal services funds (which fund operations that provide goods and services to other entities of state government on a cost-reimbursement basis). However, the executive must review enterprise funds and the legislature approves all internal service rates. If the program includes a function supported by either an enterprise fund or an internal service fund, a separate section within the relevant program provides the following:

1. A **Fund Balance Table** shows actual and projected rates, revenues, expenditures, and fund balance through FY 2009; and
2. **Narrative** contains a discussion of the function, a description and explanation of the rate requested, and a discussion of any significant present law adjustments or new proposals impacting the requested rate. The LFD analyst addresses any issues and comments as appropriate.

STATEWIDE PRESENT LAW ADJUSTMENTS

“Statewide Present Law Adjustments” are those adjustments applied to each agency based upon either: 1) factors beyond the individual agency control; or 2) other underlying factors. Because of the global application of these factors and the need for consistency among agencies, these adjustments are included in the “statewide” section of the present law table to alert subcommittees and other decision makers that, if adjustments are made to these costs, adjustments should be made to the underlying factors upon which the adjustments are based. The Legislative Finance Committee (LFC) will make a recommendation on these and other adjustments to appropriations leadership.

Personal Services

Personal services costs are derived by taking a “snapshot” of state employee positions and the factors determining compensation rates at a particular point in time. A number of underlying factors will make the 2009 biennium personal services costs different from actual FY 2006 costs. The most important are:

2007 Biennium Pay Plan and Other Benefits

The 2005 legislature adopted a pay plan that, among other features, provided two increases.

1. An overall increase in pay of 3.5 percent (or \$1,005, whichever is greater) in FY 2006 and a further increase of 4.0 percent (or \$1,118, whichever is greater), both beginning on October 1 of each year.
2. An increase in insurance rates of \$46 per month beginning on January 1, 2006 and a further increase of \$51 per month on January 1, 2007 (the increases for the Montana University System begin on July 1 of each fiscal year).

Since the pay plan was increased in FY 2007 and not fully implemented in the base year, adjustments were made to each employee’s compensation to reflect actual agency costs in the 2009 biennium. In addition, any changes made to benefits that an agency must pay directly to or in support of an employee, such as pension, or unemployment and workers’ compensation insurance, are automatically reflected in the present law personal services.

Vacancy Savings

Vacancy savings is a reduction in personal services costs that results when positions are not filled for the entire year. Vacancy savings will fluctuate within agencies and programs from year to year. In order to provide the legislature with the opportunity to make all policy decisions regarding vacancy savings, each position is funded as if the position were filled for the entire year, regardless of any vacancy savings that may have occurred in FY 2006.

Termination Pay

Costs incurred by agencies due to termination of employment, such as accrued sick or annual leave, are not included in present law.

Classification Upgrades/Downgrades

All upgrades and downgrades of individuals or classes of positions authorized during the biennium through the “snapshot” date (July of FY 2006) are included in present law.

Any adjustments to personal services from sources within the control of the executive, such as overtime, new or deleted positions, or proposed transfers, should not be included in the statewide adjustments. If the LFD analyst has identified any of the adjustments in the statewide adjustment line, they are discussed as an LFD issue or comment.

Vacancy Savings

The executive has proposed a 4 percent vacancy savings rate on all salaries and benefits, including insurance, for most positions. Exempted positions include university system faculty, and those in agencies with fewer than 20 full-time equivalent positions, the Judiciary, the highway patrol, and the Legislative Branch.

Inflation/Deflation

The executive budget has inflated or deflated certain operating expenses. Each agency budget is automatically adjusted to add inflation to or subtract deflation from the relevant expenditure items. Therefore, changes to inflation/deflation amounts in the agencies can only be made through an adjustment to the actual expenditure against which the inflation/deflation is applied, rather than to the inflation/deflation factor, itself.

Note: A complete listing of expenditure categories inflated or deflated in the executive budget has been included in the “Reference” section.

Fixed Costs

Fixed costs are costs charged to agencies to fund the operations of certain centralized service functions of state government (such as data network fees, messenger services, and legislative audit). Costs charged to the individual agency budgets are based upon the cost in the service agency and the method used to allocate those costs. These fixed costs are automatically added to each agency budget, as appropriate. Any changes to these allocations must be made through a change to the service agency budget, or to the allocation method used by the service agency. The General Government and Transportation Subcommittee will review the fixed costs proposals.

Note: A complete listing of all fixed costs is included in the “Reference” section of Volume 1.

NATURAL RESOURCES AND COMMERCE

Section C

JOINT SUBCOMMITTEES OF HOUSE APPROPRIATIONS AND SENATE FINANCE COMMITTEES

-----Agencies-----

Fish, Wildlife & Parks
Environmental Quality
Livestock

Natural Resources and Conservation
Agriculture
Commerce

-----Committee Members-----

House

Representative Rick Ripley (Chair)
Representative John Musgrove
Representative Craig Witte

Senate

Senator Ken Hansen
Senator Bill Tash
Senator Mitch Tropila

-----Fiscal Division Staff-----

Barbara Smith
Pamela Joehler

Agency Proposed Budget

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	659.85	14.75	5.00	679.60	15.75	5.00	680.60	680.60
Personal Services	31,173,981	4,230,144	216,770	35,620,895	4,400,061	215,553	35,789,595	71,410,490
Operating Expenses	24,251,674	3,806,204	2,218,000	30,275,878	3,715,325	2,199,000	30,165,999	60,441,877
Equipment	773,754	260,500	31,000	1,065,254	238,000	20,000	1,031,754	2,097,008
Grants	947,419	(10,750)	0	936,669	(10,750)	0	936,669	1,873,338
Benefits & Claims	6,188	0	0	6,188	0	0	6,188	12,376
Transfers	26,463	73,189	0	99,652	73,189	0	99,652	199,304
Total Costs	\$57,179,479	\$8,359,287	\$2,465,770	\$68,004,536	\$8,415,825	\$2,434,553	\$68,029,857	\$136,034,393
General Fund	0	139,032	500,000	639,032	116,612	500,000	616,612	1,255,644
State/Other Special	41,524,440	5,487,727	3,818,285	50,830,452	5,547,961	3,787,068	50,859,469	101,689,921
Federal Special	15,655,039	2,732,528	(1,852,515)	16,535,052	2,751,252	(1,852,515)	16,553,776	33,088,828
Total Funds	\$57,179,479	\$8,359,287	\$2,465,770	\$68,004,536	\$8,415,825	\$2,434,553	\$68,029,857	\$136,034,393

Agency Description

Fish, Wildlife and Parks (FWP) is responsible for the management of Montana's fish, wildlife, parks, and recreational resources. The department is also responsible for a state park system that includes scenic, historical, cultural, and recreational resources. The operational programs are in eight divisions and seven regional field offices. The five-member FWP Commission provides policy direction on resource management, seasons, and use of department lands.

The agency has four overarching goals:

- Create a work environment where priorities are clear; the decision-making process is efficient and effective; and where employees feel a sense of accountability, value, and satisfaction in their achievements and their contributions to the agency mission.
- Provide quality opportunities for public appreciation and enjoyment of fish, wildlife, and parks resources.
- Maintain and enhance the health of Montana's natural environment and the vitality of our fish, wildlife, cultural, and historic resources through the 21st century.
- Emphasize education, communication, and responsible behavior to afford citizens the opportunity to better understand and participate in the decision-making process that sustain our natural, recreational and cultural resources for future generations.

Agency Highlights

Department of Fish, Wildlife, and Parks Major Budget Highlights	
◆	The largest funding source is the general license account at 52.6 percent of the budget, totaling \$72.1 million over the biennium
◆	The executive budget continues status quo operations of the department with the exception of several new proposals. The major proposals include: <ul style="list-style-type: none"> • Expansion the river recreation program • Wardens for state trust lands • Increased wildlife surveys • Total FTE increase by 36.5 to a total of 678.6 FTE due to: <ul style="list-style-type: none"> ○ Hiring staff to handle parks and fishing access site maintenance ○ Permanently hiring modified FTE for wildlife conflict, game damage and community services work

o Additional enforcement staff for criminal investigations and state trust lands
Major LFD Issues
<ul style="list-style-type: none"> ◆ The executive is requesting \$3.20 million in legislative contract authority which would allow increased program expenditures without legislative review ◆ General license account balance is projected to be \$19.5 million at the end of the 2009 biennium. Limiting program expansions could reduce likelihood of a fee increase in future biennia. ◆ Expansions of conservation easements, state parks, and fishing access sites will increase operational costs

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- o Goals, objectives and year-to-date outcomes from the 2007 biennium
- o Goals and objectives and their correlation to the 2009 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

2005 Legislative Initiatives

The legislature approved three major initiatives during the 2005 session. Those initiatives and subsequent outcomes are summarized below:

- o Funding was provided to begin fish production at the Fort Peck Hatchery. The hatchery became operational in the spring of 2006.
- o Two Regional Investigator positions were funded to increase efforts toward resource abuses and commercialized wildlife crimes. The department demonstrated success with these positions in semi-annual reports to the Legislative Finance Committee
- o The Automated Licensing System was transitioned from a contract to in-house personnel through approval of 16.00 FTE and a reduction in funding. The department was able to initiate help desk functions locally and reduce base expenditures. Some of the 16 positions were held open for vacancy savings.

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Total Agency Funding 2009 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
01 Information Services Division	\$ -	\$ 7,463,323	\$ 319,751	\$ 7,783,074	5.72%
02 Field Services Division	-	18,516,869	952,472	19,469,341	14.31%
03 Fisheries Division	500,000	9,940,323	18,060,505	28,500,828	20.95%
04 Enforcement Division	255,644	15,691,527	829,207	16,776,378	12.33%
05 Wildlife Division	500,000	10,111,535	10,760,352	21,371,887	15.71%
06 Parks Division	-	15,511,884	547,920	16,059,804	11.81%
08 Communication And Education Div	-	5,105,736	1,438,860	6,544,596	4.81%
09 Management And Finance	-	19,348,724	179,761	19,528,485	14.36%
Grand Total	\$ 1,255,644	\$ 101,689,921	\$ 33,088,828	\$ 136,034,393	100.00%

Significant Federal Funding

The department's budget consists of 74 percent state special revenue, 24 percent federal special revenue, and 1 percent general fund. Of the \$15.6 million in federal funds received in FY 2006, \$14.9 million was derived from the federal aid programs.

The Federal Aid in Wildlife Restoration Act, commonly referred to as the Pittman-Robertson act, began in July of 1938. The purpose of this funding is to provide for the selection, restoration, rehabilitation, and improvement of wildlife habitat,

wildlife management research, and the distribution of project information. An amendment to the program added funding for hunter safety and the development, operation, and maintenance of public shooting ranges.

Funding for the program comes from an 11 percent federal excise tax on sporting arms, ammunition, and archery equipment, as well as a 10 percent tax on handguns. Funds are proportioned to states based on a formula considering total area of the state and licensed hunters in the state.

The program is a cost reimbursement program where the state covers the full amount of the project and applies for reimbursement of up to 75 percent of the expenses. The state provides the other 25 percent from a non-federal source.

Parallel to this program is the Federal Aid in Sport Fish Restoration act, referred to as Wallup-Breaux in recognition of the major revisions to the act completed in 1984. Modeled after Pittman-Robertson, Wallup-Breaux provides funding for the management, conservation, and restoration of fishery resources. Excise taxes on fishing rods, reels, creels, lures, flies, and artificial bait provide funding for the program.

Like Pittman-Robertson, Wallup-Breaux funds are distributed on a formula basis, based on the number of licensed anglers and land and water mass of the state. This is also a cost-reimbursement program where up to 75 percent of approved project costs can be recovered.

The federal programs come with specific requirements. Montana has agreed to use state hunting and fishing license revenues (and subsequent interest earnings) for only fishery and wildlife management work. If the state uses these revenues for something else, the federal government could determine that a diversion of state licensure dollars had occurred. The penalty for this activity is the withholding of Pittman-Robertson and Wallup-Breaux funding. As a consequence, the state has virtually no option to use state derived license revenues for any activities other those related to fish and wildlife management to retain this funding

LFD COMMENT

Within the Governor's proposal are two decision packages to utilize general license funds for services provided by other agencies. The department feels that in order to meet the federal requirements that the appropriation authority for such activities should remain within FWP. In order for the other agencies to utilize the appropriation, the authority would be provided as an administrative appropriation to the other agency. In doing this the appropriation is double counted on the state books, once in FWP and once in each of the other agencies.

Biennium Budget Comparison

The following table compares the executive budget request in the 2009 biennium with the 2007 biennium by type of expenditure and source of funding. The 2007 biennium consists of actual FY 2006 expenditures and FY 2007 appropriations.

Budget Item	Present Law Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	Present Law Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Biennium Fiscal 06-07	Total Exec. Budget Fiscal 08-09
FTE	674.60	5.00	679.60	675.60	5.00	680.60	659.85	680.60
Personal Services	35,404,125	216,770	35,620,895	35,574,042	215,553	35,789,595	64,537,979	71,410,490
Operating Expenses	28,057,878	2,218,000	30,275,878	27,966,999	2,199,000	30,165,999	49,709,227	60,441,877
Equipment	1,034,254	31,000	1,065,254	1,011,754	20,000	1,031,754	1,545,337	2,097,008
Grants	936,669	0	936,669	936,669	0	936,669	1,809,492	1,873,338
Benefits & Claims	6,188	0	6,188	6,188	0	6,188	21,163	12,376
Transfers	99,652	0	99,652	99,652	0	99,652	306,132	199,304
Total Costs	\$65,538,766	\$2,465,770	\$68,004,536	\$65,595,304	\$2,434,553	\$68,029,857	\$117,929,330	\$136,034,393
General Fund	139,032	500,000	639,032	116,612	500,000	616,612	0	1,255,644
State/Other Special	47,012,167	3,818,285	50,830,452	47,072,401	3,787,068	50,859,469	85,822,068	101,689,921
Federal Special	18,387,567	(1,852,515)	16,535,052	18,406,291	(1,852,515)	16,553,776	32,107,262	33,088,828
Total Funds	\$65,538,766	\$2,465,770	\$68,004,536	\$65,595,304	\$2,434,553	\$68,029,857	\$117,929,330	\$136,034,393

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	Fiscal 2008				Fiscal 2009				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 103 - Information Services Overhead Refund										
01	0.00	0	179,034	(179,034)	0	0.00	0	179,034	(179,034)	0
DP 209 - Field Services Overhead Refund										
02	0.00	0	290,841	(290,841)	0	0.00	0	290,841	(290,841)	0
DP 306 - Fisheries Statewide Wildlife Grants										
03	0.00	250,000	200,000	600,000	1,050,000	0.00	250,000	200,000	600,000	1,050,000
DP 308 - Fisheries Overhead Refund										
03	0.00	0	40,761	(40,761)	0	0.00	0	40,761	(40,761)	0
DP 412 - State Lands Wardens										
04	2.00	0	140,118	0	140,118	2.00	0	110,262	0	110,262
DP 507 - State Wildlife Grants (SWG)										
05	0.00	250,000	200,000	600,000	1,050,000	0.00	250,000	200,000	600,000	1,050,000
DP 514 - Wildlife Overhead Refund										
05	0.00	0	73,382	(73,382)	0	0.00	0	73,382	(73,382)	0
DP 610 - Parks Overhead Refund										
06	0.00	0	117,317	(117,317)	0	0.00	0	117,317	(117,317)	0
DP 805 - Com & Ed Overhead Refund										
08	0.00	0	134,406	(134,406)	0	0.00	0	134,406	(134,406)	0
DP 909 - Mngmt & Finance Overhead Refund										
09	0.00	0	2,216,774	(2,216,774)	0	0.00	0	2,216,774	(2,216,774)	0
DP 915 - River Recreation Management Program										
09	3.00	0	225,652	0	225,652	3.00	0	224,291	0	224,291
Total	5.00	\$500,000	\$3,818,285	(\$1,852,515)	\$2,465,770	5.00	\$500,000	\$3,787,068	(\$1,852,515)	\$2,434,553

Language

"If the department receives additional federal special revenue for services comparable to those with general license revenue or is required to adjust personal services expenditures between state and federal accounts, the approving authority may adjust the state special revenue appropriation and the federal appropriation by like amounts."

Agency Issues*General License Account*

The department's main source of funding is the general license account (GLA). Fees collected for the privilege of hunting and fishing that are not otherwise earmarked are deposited to the GLA. The amount available for appropriation from the GLA is dependent upon license revenues, interest earned, capital appropriations, and the demand for funds within the department. The proposed biennium budget of \$137 million is funded with \$72.1 million of general license dollars. The health of this fund is central to the operation of the department.

Revenues

Fees are set by the legislature. Prior to the 2005 session fees were set at a stable level for a period of eight to ten years allowing the department to collect fees, build a fund balance, and spend down the balance prior to seeking additional increases. However, the 2005 Legislature passed a number of bills raising the fees of a variety of hunting and fishing licenses to move the department toward a structurally balanced budget. Figure 1 summarizes those changes.

Figure 1
2005 Enacted Legislation
Potential Fiscal Impact to Fee Changes

Bill No	Description	Estimates from Fiscal Note		
		FY 2006	FY 2007	2008 Total
HB 34	Non Resident Turkey Tag	\$54,210	\$54,210	\$108,420
HB 172	Revise Hunting & Fishing Licenses	1,341,005	3,085,295	4,426,300
HB 174	License of Private Ponds	22,980	2,850	25,830
HB 214	Non Resident Youth Big Game Combo	93,750	93,750	187,500
HB 235	PL/PW Recommendations - Supertag	(13,683)	746,232	732,549
HB 421	Non Resident child of Resident License Fees	(8,982)	(17,964)	(26,946)
SB 91	Allocation of buffalo licenses to MT tribes	(1,875)	(1,875)	(3,750)
SB 339	Low cost licenses for active military personnel	(29,986)	(35,962)	(65,948)
Total Impact		<u>\$1,457,419</u>	<u>\$3,926,536</u>	<u>\$5,383,955</u>

A majority of the changes were made in HB 172. This bill increased the costs of 27 resident licenses and one non-resident license. In addition the bill reduced the license fee on non resident moose, sheep and goat licenses. The estimated impact to the general license account for the 2007 biennium was \$4.4 million.

HB 235, which enacted the recommendations of the Private Lands / Public Wildlife Council, included the creation of the super tag program, allowing the department to sell chances for individuals to obtain an elk, deer, sheep, moose or goat tag. Hunters could buy as many \$5.00 chances per species as they wanted. Estimated to earn \$742,000 in revenue in FY 2007, the program has raised \$356,000 in FY 2007 to date. This funding is deposited to the hunting access fund as it is restricted by law for use in the hunting access enhancement program (block management) including enforcement costs.

The department estimates revenues for the general license account as part of the budgeting process. Historically, as demonstrated by Figure 2, the department's forecasts average about 90 percent of actual revenues. If a structurally balanced budget when revenues exceed or are equal to expenditures, is to be achieved, the legislature needs solid revenue estimates.

Figure 2 General License Account Revenues & Estimates				
FY	Revenue	Estimate	Difference	Accuracy
2000	\$24,474,274	\$23,473,451	\$1,000,823	96%
2001	24,657,861	23,307,058	1,350,803	95%
2002	27,145,523	23,912,884	3,232,639	88%
2003	29,189,792	23,773,081	5,416,711	81%
2004	28,437,937	27,354,475	1,083,462	96%
2005	30,399,417	27,650,615	2,748,802	91%
2006	\$32,214,305	\$27,598,982	\$4,615,323	86%

LFD ISSUE

Revenue Estimates

In the absence of reliable revenue estimates, the legislature may not be able to implement a budget reflecting legislative priorities. A low estimate reduces the amount of money the legislature believes is available and will also cause a higher than predicted ending fund balance. The legislature may wish to:

- Establish a process for FWP to report annually to the Legislative Finance Committee on the tracking of projections versus actual revenues
- Establish a minimum and maximum balance for the general license account to aid in fund management

The balance of the general license account

The balance of the general license account determines the availability of funds for continuing operations, present law adjustments and expansions, and new proposals. Figure 3 provides the detail for 2005 and 2007 biennia.

The figure provides the comparison between the completed base year, FY 2006, the appropriation for FY 2007, and the budget requested for FY 2008 and FY 2009. Since FY 2006 is the base year for this biennium's budget, the table allows for comparisons of revenues and expenditures. Entering FY 2006, the general license account had a balance of \$26.2 million, with \$32.2 million in revenues and \$31.6 million expended, leaving an available balance for FY 07 of \$27.3 million.

The projected balance of the general license account at the end of the 2009 biennium is \$19.5 million based upon the budget request, outstanding capital authority and a pay plan identical to HB 447 of the 2005 Legislature. The department considers a \$5.0 million fund balance a critical point for cash flow and to potentially adjust fee levels to assure adequate financing for department programs. The projected fund balance illustrates that cash is readily available and fee increases are not necessary at this time.

Among the major expenditures proposed by the executive from the account are the following:

- \$800,000 in matching funds for the state wildlife grant program
- \$255,000 to add two regional investigators
- \$300,000 for wildlife surveys

New proposals include:

- Funding switch for indirect costs
- \$450,000 for river recreation management

Structural balance

Figure 4 provides a comparison of revenues and expenditures since FY 1991. Between 1999 and 2002, the department expended more than current year revenues, causing a reduction to the ending fund balance. Since that time, the expenditure pattern of the department has been relatively balanced. FY 2007 through FY 2009 expenditures include all capital appropriation authority in order to ensure significant funds are available to meet those obligations.

To ensure the fund remains structurally balanced, the legislature may wish to consider the impact on the fund balance and the ability to continue financing on-going operations as appropriation decisions are made. The program narrative identifies proposals dependent upon general license funds.

Land Management Issues

In managing the state's fish, wildlife and cultural resources, the department actively manages 778,000 acres of land. This includes land owned by the department, conservation easements held by the department, and leased land.

Figure 3
FWP General License Account -- Estimate Available Fund Balance
2007 Biennium Executive Budget Request

	Actual Fiscal 2006	Appropriated Fiscal 2007	Executive Request Fiscal 2008	Fiscal 2009
Beginning Balance	26,249,557	27,286,382	22,822,214	20,400,725
License Revenue	29,136,277	30,040,744	33,788,743	34,182,815
Other Revenue	3,078,027	2,413,002	2,461,957	2,461,523
Total Funds Available	58,463,861	59,740,128	59,072,914	57,045,063
Disbursements				
Program Expenditures	29,541,417	31,328,508	31,593,617	31,686,538
Continuing Capital Costs	1,909,389	4,384,359	-	0
LRB Projects	142,264	1,205,047	2,000,000	0
Carry Forward Appropriations				
Proposed Executive Pay Plan			629,114	1,408,246
Budget Proposals (PL & NP)			4,449,458	4,444,855
Total Disbursements	31,593,070	36,917,914	38,672,189	37,539,639
Adjustments (Prior Year Revenue)	415,591	-	0	0
Available Ending Balance	27,286,382	22,822,214	20,400,725	19,505,424

Figure 4
General License Account Revenues and Disbursements

Fiscal Year	Revenues	Disbursements	Difference	Cummulative
*2009	\$36,644,338	\$35,973,543	\$670,795	\$14,973,104
*2008	36,250,700	37,970,874	(1,720,174)	14,302,309
*2007	32,453,746	36,917,914	(4,464,168)	16,022,483
2006	32,214,305	32,011,336	202,969	20,486,651
2005	30,399,416	30,149,840	249,576	20,283,682
2004	28,437,936	28,905,675	(467,739)	22,068,151
2003	29,244,690	26,742,906	2,501,784	22,535,890
2002	25,551,068	26,610,399	(1,059,331)	20,034,106
2001	24,995,088	25,496,596	(501,508)	21,093,437
2000	24,682,872	25,261,465	(578,593)	21,594,945
1999	24,855,232	25,647,061	(791,829)	22,173,538
1998	24,556,436	23,387,660	1,168,776	22,965,367
1997	24,001,499	21,387,625	2,613,874	21,796,591
1996	25,118,865	21,082,910	4,035,955	19,182,717
1995	25,254,777	19,510,966	5,743,811	15,146,762
1994	23,200,161	18,963,554	4,236,607	9,402,951
1993	21,511,108	18,192,128	3,318,980	5,166,344
1992	18,836,165	17,152,135	1,684,030	1,847,364
1991	16,948,445	16,785,111	163,334	163,334

Expansion of land management responsibilities can occur in a number of ways. The department can accept a gift of land, lease land for habitat or other purposes, purchase land, or enter into reservation agreements, as per 87-1-209, MCA. The FWP Commission provides oversight to these activities and most transactions require approval from the Board of Land Commissioners. During the process, transaction costs such as the price for the conservation easement or land purchase or terms of the trade or donation, are discussed in relation to land use and “fit” within the department’s overall goals and objectives. The discussions do not typically involve costs of post-acquisition such as development, operation, or maintenance. These issues are left for the legislature to address through the appropriations process.

Governor’s Proposal to expand Parks and Fishing Access Sites

The Governor proposes in HB 2 to expand the number of FTE and corresponding resources to manage the maintenance and operations of current parks and fishing access sites. As the inventory of land rises or the utilization of parks and fishing access sites increase, the cost to maintain and operate the land also rises.

The Governor would provide FWP with \$15.0 million in general fund authority to purchase land for additional state parks and fishing access sites. The request will be considered by the Long Range Planning sub-committee through HB 5. If approved, the \$15.0 million will be provided to FWP as capital authority. Capital authority is an on-going appropriation available until expended or reverted. As land is purchased, development will occur and as the parks are rolled out to the public, operations and maintenance will be needed. The development, operations, and maintenance costs have not been considered as part of the proposal.

The proposal does not affect the operations budget of FWP at this time, and without an overall plan from the department the ability to predict when those costs will occur is difficult. The legislature may wish to:

- Communicate concerns regarding this proposal to the Long Range Planning sub-committee and request the committee set aside a portion of the \$15.0 million for development costs or future operations and maintenance costs.
- Request from the department an implementation plan including goals and measurable objectives, including future maintenance costs
- Make no changes

Related to this is the fact that department conservation easements are used to obtain open space for habitat or around cultural or historic sites. As with the purchase of land, a conservation easement comes with some costs to manage. A discussion of the department’s request for additional resources to manage the easements can be found in the Field Services Division narrative.

Personal Services Adjustments

In addition to legislatively approved pay increases, agencies have the ability to adjust pay for other reasons to address competition, merit increases, class upgrades, and training assignments within current appropriation authority. When these adjustments are completed prior to the profile of personal services used to develop the budget for the coming biennium (“snapshot”) in the base year, the cost to continue such adjustment are included in the personal services present law adjustments.

This occurs at varying levels in each department. Figure 5 summarizes approved pay increases in FWP. The three divisions with the largest combined adjustment are the Fisheries Division, the Management and Finance Division and the Parks Division. Each program analysis contains a short explanation of how non-legislative adjustments play a role in the personal services increases.

Legislative Contract Authority

Legislative contract authority provides a means by which the legislature can appropriate federal funds that the department anticipates receiving after the legislature adjourns and that would ordinarily be added through a budget amendment. Legislative

Figure 5 Department of Fish, Wildlife & Parks Non-legislative Pay Adjustments		
Division	Net Personal Services	Portion Attributable To Non-Leg. Increases
Info Services	\$978,472	\$59,560
Field Services	284,848	(4,698)
Fisheries Division	1,606,021	287,406
Enforcement	401,916	13,488
Wildlife Division	713,581	11,330
Parks	616,856	166,674
Comm & Ed	273,751	21,734
Mgmt & Finance	801,646	207,814
Total	\$5,677,091	\$763,308

contract authority expenditures are treated as budget amendment expenditures in that they are removed from the base and must be re-appropriated each biennium, but LCA is not exempt from the carry forward statute. Thirty percent of unexpended LCA authority can be carried forward for use in the following two fiscal years.

Unlike a budget amendment, the legislature does not have the opportunity to review legislative contract authority expenditures on an on-going basis. The agency receives federal funding and spends it. This can also include adding modified FTE. The legislature becomes involved during the subsequent legislative session when it receives a report from the agency detailing legislative contract authority expenditures. Figure 6 summarizes the use of LCA for the 2007 biennium through September 2006. In areas where expenditures exceeded authority, the department moved LCA authority from another division to enable the expenditure to occur.

Figure 6
Use of Legislative Contract Authority

Program	FY 2006	Division Total
<u>Fisheries</u>		
Thompson River Road Mitigation	\$19,396	
Hungry Horse Dam Mitigation	134,900	
Libby Dam Mitigation	24,000	
West Slope Cut Throat (WSCT) Trout Restoration	15,412	
Pallid Sturgeon Recovery - Endangered Species Act	18,651	
Fort Peck Flow	124,201	
Yellowstone River Pallid Sturgeon	29,000	
Grayling Tech Support	47,690	
Big Hole Fluvial Artic Grayling	36,400	
Grayling Restoration	20,000	
WSCT Elkhorn / Belts	6,000	
TIS Evaluation	12,726	
Aquatic Nuisance Outreach & Tech. Assistance	12,534	
Pallid Sturgeon - Endangered Species Act	15,227	
Aquatic Nuisance Species	29,762	
Pallid Sturgeon	50,853	
Murray Springs	\$18,000	
Fisheries Division Total		\$614,752
<u>Wildlife Division</u>		
Bear Shrubfield Survey	2,000	
Griz Bear/Glacier National Park	13,384	
Griz Bear Monitoring/Forest Service	21,174	
Garnet Carnivore	133	
Living with Predators	7,150	
Elk Calf Mortality	12,704	
Grizzly Bear R3	5,000	
NE Montana Piping Plover	77,439	
Chronic Wasting Disease	76,226	
Swift Fox	15,245	
Forest Legacy Admin	21,174	
Peregrine Falcon	29,013	
R2 Grizzly Bear	7,915	
R3 Grizzly Bear	4,000	
Grizzly Bear	5,025	
Piping Plover	15,000	
Least Tern	\$18,878	
Wildlife Division Total		\$331,460
<u>Parks Division</u>		
Blackfoot Interns	6,041	
Blkft R Recreation Permits	18,787	
Smith River	\$7,500	
Parks Division Total		\$32,328
<u>Enforcement Division</u>		
TIPMONT / FS	\$9,000	
Enforcement Division Total		9,000
Total LCA Utilized		\$987,540

The department is seeking present law adjustments to provide \$3.2 million in short-term federal contract authority for the Fisheries, Enforcement, Wildlife, and Parks Divisions for federal funds from various sources to replace authority currently acquired through the budget amendment process.

The appropriation of legislative contract authority would provide the department the ability to spend federal dollars as they are received and provides virtually no oversight of the process. The budget amendment process, as prescribed in 17-7-402, MCA, provides for a formal review process. Requests that do not meet the criteria are not approved, while those that do are provided the authority to do so. The legislature may wish to determine if these funds should be reviewed through a formal process. The options are:

- Appropriate the legislative contract authority, allowing the department to spend additional federal funds without legislative review
- Appropriate authority and seek legislation to modify the carry forward statute to disallow LCA in the calculations process
- Appropriate legislative contract authority to the Fisheries and Wildlife Divisions only as the amounts and activities in the Parks and Enforcement Divisions are minimal and could use the budget amendment process
- Continue to require that the department seek budget amendments for additional federal funding

Financial Audit Results

The Legislative Audit Division (LAD) completed a financial-compliance audit for the two fiscal years ending June 30, 2005. The audit resulted in 13 recommendations and one disclosure statement. Three affect the Governor's proposed budget. They are:

Financial Schedules – LAD issued a qualified opinion on the financial schedules that were reviewed as part of the audit, as a result of a number of errors found in the schedules. The findings led the LAD to advise individuals to use caution when relying on the information presented in the schedule or the state accounting system.

**LFD
ISSUE****Financial Accuracy**

The finding that individuals must use caution when viewing financial statements is a serious one. These statements must be relied upon if observers, including the legislature, are to have an accurate picture of the activities of the agency. The findings specifically address the use of data. If the legislature is reviewing historic costs as part of their deliberations, the use of data from FY 2004 and FY 2005 should be used with caution, as coding errors may be present and not provide accurate information. The audit was released in November 2005 or nearly one half of the way through FY 2006, and the department may not have been able to correct coding practices for FY 2006. The legislature may wish to have the department provide a status of their corrective action plan.

Indirect Costs – State law requires agencies to collect indirect costs from federally awarded contracts. The cash from the federal award must be deposited to the fund that incurs the indirect expenses. The department has traditionally recorded indirect revenues from federal grants into a federal fund, but paid them from the general license account. The agency is correcting this error in a base budget adjustment requested in each division of the department, except the Enforcement Division. The package will reflect an increase in state special revenue authority and a decrease in federal authority of the same amount.

Internal Service Rate – The audit determined that the rates in the warehouse internal service fund and the duplicating center are not commensurate with costs. The legislature does not appropriate monies from this fund but does establish the rates. Both of these internal services funds are discussed in the Management and Finance Division.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	35.50	0.00	0.00	35.50	0.00	0.00	35.50	35.50
Personal Services	1,698,541	485,876	0	2,184,417	492,956	0	2,191,497	4,375,914
Operating Expenses	1,310,541	263,488	0	1,574,029	334,812	0	1,645,353	3,219,382
Equipment	24,500	0	0	24,500	0	0	24,500	49,000
Grants	69,389	0	0	69,389	0	0	69,389	138,778
Total Costs	\$3,102,971	\$749,364	\$0	\$3,852,335	\$827,768	\$0	\$3,930,739	\$7,783,074
State/Other Special	2,535,049	978,451	179,034	3,692,534	1,056,706	179,034	3,770,789	7,463,323
Federal Special	567,922	(229,087)	(179,034)	159,801	(228,938)	(179,034)	159,950	319,751
Total Funds	\$3,102,971	\$749,364	\$0	\$3,852,335	\$827,768	\$0	\$3,930,739	\$7,783,074

Program Description

Information Services provides information technology and information management services to the entire department, including network creation and administration, hardware and off-the-shelf software procurement and configuration, support of automated license sales and drawings, intranet and internet communications, software deployment and support, and database management.

Program Highlights

Information Services Division Major Program Highlights	
♦	This division was created as part of a re-organization in the department during FY 2006
♦	The budget provides for continued support of the automated licensing system, the department web site, and other computer systems

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the executive. Funding for each program is discussed in detail in the individual program narratives that follow.

Program Funding Table Information Services Div						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 2,535,049	81.7%	\$ 3,692,534	95.9%	\$ 3,770,789	95.9%
02409 General License	2,535,049	81.7%	3,692,534	95.9%	3,770,789	95.9%
03000 Total Federal Special Funds	567,922	18.3%	159,801	4.1%	159,950	4.1%
03097 Fedl Fish(W/B) Wildlife(P/R)	263,938	8.5%	22,220	0.6%	22,220	0.6%
03403 Misc. Federal Funds	124,950	4.0%	137,581	3.6%	137,730	3.5%
03404 Overhead	179,034	5.8%	-	-	-	-
Grand Total	\$ 3,102,971	100.0%	\$ 3,852,335	100.0%	\$ 3,930,739	100.0%

The Information Services Division manages the functionality, training and hardware associated with the automated licensing system (ALS). The division is primarily funded with license fees. The division receives 81 percent of their funding from the general license account. The federal funding is mainly Pittman-Robertson/Wallup-Breaux dollars to provide additional support for the licensing system.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
Fiscal 2008					Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				576,891					584,264
Vacancy Savings				(91,015)					(91,308)
Inflation/Deflation				5,981					6,364
Fixed Costs				257,507					328,448
Total Statewide Present Law Adjustments				\$749,364					\$827,768
Grand Total All Present Law Adjustments				\$749,364					\$827,768

LFD COMMENT

The components driving the personal adjustment are about \$395,000 for vacancies, and \$29,500 for non-legislative pay adjustments. The remainder is attributable to annualization of the previous pay plan, and longevity adjustments, and increases to employer paid health insurance premiums. The vacancy adjustment is attributable to positions authorized by the 2005 legislature to transition the automated licensing system (ALS) from contracted services to in-house management. Five of the 16 approved positions were vacant during the base year for a period of time. The non-legislative pay increases are attributable to the recently completed reorganization and subsequent employee promotions.

New Proposals

New Proposals										
-----Fiscal 2008-----						-----Fiscal 2009-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 103 - Information Services Overhead Refund										
01	0.00	0	179,034	(179,034)	0	0.00	0	179,034	(179,034)	0
Total	0.00	\$0	\$179,034	(\$179,034)	\$0	0.00	\$0	\$179,034	(\$179,034)	\$0

DP 103 - Information Services Overhead Refund - The executive is requesting a technical budget adjustment to comply with the department's most recent legislative audit. If approved, the department would be able to deposit and expend federal grant revenues for department indirect charges from the general license account.

LFD ISSUE

Please see agency issues for a full description of the legislative audit findings.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	45.80	1.00	0.00	46.80	1.00	0.00	46.80	46.80
Personal Services	2,050,511	184,052	0	2,234,563	191,399	0	2,241,910	4,476,473
Operating Expenses	6,522,533	913,378	0	7,435,911	944,130	0	7,466,663	14,902,574
Equipment	6,458	0	0	6,458	0	0	6,458	12,916
Grants	30,681	1,820	0	32,501	1,820	0	32,501	65,002
Benefits & Claims	6,188	0	0	6,188	0	0	6,188	12,376
Total Costs	\$8,616,371	\$1,099,250	\$0	\$9,715,621	\$1,137,349	\$0	\$9,753,720	\$19,469,341
State/Other Special	7,866,985	1,084,383	290,841	9,242,209	1,116,834	290,841	9,274,660	18,516,869
Federal Special	749,386	14,867	(290,841)	473,412	20,515	(290,841)	479,060	952,472
Total Funds	\$8,616,371	\$1,099,250	\$0	\$9,715,621	\$1,137,349	\$0	\$9,753,720	\$19,469,341

Program Description

The Field Services Division provides services in five areas.

- The Landowner Sportsman Relations and Block Management Program: 1) establishes and maintains communications with user and resource-based organizations and individuals; 2) administers the Livestock Loss Reimbursement Program; and 3) administers the Block Management Program, which provides recreational access on private property
- The Game Damage Program provides assistance to landowners in minimizing impacts of game animals to property and crops
- The Design and Construction Bureau provides architectural and engineering services for construction and maintenance projects at state parks, state fishing access sites, and wildlife management areas
- The Aircraft Unit provides aerial mountain lake surveys and fish planting, wildlife surveys, wildlife capture and marking, and transportation for the department
- The Land Unit is responsible for the real estate functions of the department, including conservation easements, acquisition and disposal of real estate and real property, and management of all permanent land records

Program Highlights

Field Services Division Major Program Highlights	
♦	The implementation of the super tag program provides an additional \$325,000 in revenues to support the Block Management program
♦	The expansion of FWP held conservation easements may require the addition of FTE to provide contract oversight
Major LFD Issues	
♦	The funding proposed for the conservation easement land steward may not meet legislative intent

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Field Services Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 7,866,985	91.3%	\$ 9,242,209	95.1%	\$ 9,274,660	95.1%
02334 Market Based Combo Sales	4,974,392	57.7%	5,807,955	59.8%	5,814,882	59.6%
02408 Coal Tax Trust Account	34,715	0.4%	34,715	0.4%	34,715	0.4%
02409 General License	2,821,300	32.7%	3,330,061	34.3%	3,355,585	34.4%
02469 Habitat Trust Interest	36,578	0.4%	69,478	0.7%	69,478	0.7%
03000 Total Federal Special Funds	749,386	8.7%	473,412	4.9%	479,060	4.9%
03097 Fedl Fish(W/B) Wildlife(P/R)	458,545	5.3%	473,412	4.9%	479,060	4.9%
03404 Overhead	290,841	3.4%	-	-	-	-
Grand Total	\$ 8,616,371	100.0%	\$ 9,715,621	100.0%	\$ 9,753,720	100.0%

The Field Services Division's primary funding source are portions of the variable-rate hunting license sales and the general license account. These sources provide funding for the hunting access enhancement and hunter management program within the block management program. Lesser amounts come from Coal Tax Trust interest and Wildlife Habitat Trust interest. Federal funding consists of Pittman-Robertson funds derived from excise taxes on sporting fire arms and ammunition. This funding requires a minimum match of 25 percent that is provided by license revenues.

The division used to receive a portion of the overhead allocation made on federal and non-federal funds. Due to the findings of the legislative auditor, this funding mechanism requires change. The budget provides additional authority from the general license account, where the allocation revenue will now be deposited.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2008-----					-----Fiscal 2009-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				229,992					237,598
Vacancy Savings				(91,219)					(91,523)
Inflation/Deflation				111,192					117,388
Fixed Costs				(1,544)					(1,544)
Total Statewide Present Law Adjustments				\$248,421					\$261,919
DP 201 - Block Management									
0.00	0	660,000	0	660,000	0.00	0	660,000	0	660,000
DP 202 - Tax Adjustment									
0.00	0	69,561	14,867	84,428	0.00	0	88,514	20,515	109,029
DP 203 - Game Damage Elk Herders									
0.00	0	22,247	0	22,247	0.00	0	22,247	0	22,247
DP 204 - Living With Wildlife Biennial									
0.00	0	1,820	0	1,820	0.00	0	1,820	0	1,820
DP 206 - Conservation Easement Land Steward									
1.00	0	32,900	0	32,900	1.00	0	32,900	0	32,900
DP 208 - Dam Safety Act Technical Adjustment									
0.00	0	49,434	0	49,434	0.00	0	49,434	0	49,434
Total Other Present Law Adjustments									
1.00	\$0	\$835,962	\$14,867	\$850,829	1.00	\$0	\$854,915	\$20,515	\$875,430
Grand Total All Present Law Adjustments				\$1,099,250					\$1,137,349

LFD COMMENT

The primary component driving the biennial personal services adjustment of is about \$75,844 for vacancies. The remainder is attributable to annualization of the previous pay plan, including longevity increases and adjustments to employer paid health insurance premiums.

DP 201 - Block Management - The 2005 Legislature modified Title 87, Chapter 1, and part 2 to include authority for the department to create an annual lottery for a moose, sheep, goat, deer, and elk super tag and directed the revenues to augment current support of hunter access and block management enforcement. The executive requests to annualize the operations budget of \$660,000 approved by the previous legislature in FY 2007 only. The revenue would be from the sale of super tag chances and the increase in variable priced outfitter sponsored non-resident deer and elk licenses. The super tag program generated \$324,665 in revenues in FY 2007.

**LFD
COMMENT**

The department has requested a bill to expand the super tag to bison, antelope and mountain lion to raise additional funds for the block management program.

DP 202 - Tax Adjustment - This proposal would increase budget authority to cover tax liabilities for department lands and continue adjustments based upon the current rate of increase in tax payments for FY 2008 and FY 2009. FY 2006 tax liabilities were \$451,861. This adjustment allows payment of tax liabilities of \$536,289 in FY 2008 and \$560,890 in FY 2009.

DP 203 - Game Damage Elk Herders - The executive is requesting the restoration of \$22,247 in operations to the game damage program. This amount was transferred to personal services in FY 2006 in an operations plan change to deal with the change in worker compensation laws. Provisions of SB 108, enacted in the 2005 legislative session, changed the requirements for an independent contractor exemption certificate for worker's compensation. FWP had previously utilized independent personal services contracts for these services. The modified FTE are used to herd game animals away from crops and stored hay/grain as a means to mitigate game damage on private property in certain locations during the spring-summer period.

**LFD
ISSUE****Potential Operations Plan Change**

This proposal requests additional contracted services. In order to comply with SB 108 changes, the department will need to process an operations plan change to move this appropriation to personal services in order to establish modified FTEs to complete the job. The legislature may wish to establish an FTE and appropriate personal services dollars to eliminate the need for a operations plan change.

DP 204 - Living With Wildlife Biennial - The executive is requesting \$1,820 per year to re-establish the division's biennial appropriation for the Living with Wildlife Grant Program at \$65,000 for FY 2008 and FY 2009.

**LFD
COMMENT**

This program provides grants to community groups to address living with wildlife. Grants were provided to the City of Helena, Montana Audubon, and the Beartooth Front Community Forum. These groups utilized the grant funds to establish baseline data regarding urban wildlife, develop guidelines for wetland developments and provide bear resistant garbage containers. A total of 11 grants were funded in FY 2006.

DP 206 - Conservation Easement Land Steward - FWP currently holds over 50 conservation easements, totaling nearly 400,000 acres. The executive is requesting 1.00 FTE and partial funding of \$32,900 each year to ensure the long term stewardship obligation of the department in conservation easements.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The department assumes long-term stewardship obligations to ensure that the interests held under a conservation easement is properly managed and protected. As conservation easements increase, staff is needed to respond to landowner requests related to managing easement properties.

Goals: Manage habitat in conservation easements in a cooperative manner with landowners to benefit the health and species of plant and wildlife communities.

Performance Criteria:

- Resolution of all landowner operational change requests will be completed within 60 days of application
- All FWP held conservation easements will be monitored annually
- Response to all landowner easement complaints will be made within one week of receipt
- Department conservation easement records will be updated quarterly
- All pending landowner operational change requests will be resolved by January 1, 2008 or within 6 months of hiring

Milestones: The conservation land steward will be hired by July 1, 2007.

FTE: One FTE is being requested to complete this work. Stewardship skills typically include experience in range management, ranching, forestry, and a long-term view of land management, legal requirements, and relationship building.

Funding: A portion of the funding for this proposal will be re-directed from division operations (\$21,934 from the general license account), and the remainder of \$32,900 will be funded from the Wildlife Habitat Trust (02469). The trust interest fund is for development and maintenance of real property used for wildlife habitat.

Obstacles: Obtaining a qualified applicant pool could be difficult. To increase the applicant pool, the job announcement will be placed in newsletters of Land Trust organizations. If entry pay level proves to be an obstacle, a strategic pay plan exception will be requested.

Risk: Without this position, FWP relationships with easement landowners could be strained due to the department's delayed response to landowner requests. Wildlife habitat values associated with some easements could be negatively impacted and enforcement and easement-defense actions by FWP for non-compliance of easement terms may result.

**LFD
ISSUE**

Use of Conservation Easements

Conservation easements will continue to be used as a tool by the department and other entities to protect the natural landscape and vital habitat. Landowners will continue to use the tool for tax purposes, the ability to pass land to family, and to meet their own conservation goals. As with the purchase of land, conservation easements come with some costs to manage. To control future costs, the legislature may wish to influence the number of conservation easements held by FWP. This could be done by the following means:

- Request legislation to limit the number of easements or number of acres to be managed by the department under a conservation easement
- Request from the department a summary of proposed easement transactions for the 2009 biennium in relation to this budget request

**LFD
ISSUE
CONT.**

If the legislature is interested in assuring the work will be completed with assigned resources, the legislature may wish to require performance reporting for this proposal during the 2009 biennium to assure sufficient resources are available to manage the conservation easements.

The Habitat Montana program established at 87-1-241,MCA, provides a funding source for the department to secure wildlife habitat. The statute allows for a portion of the interest to be used for operations and maintenance costs on the sites associated with the real property managed by the program. Real property is land, what is affixed to the land, and easements running with the land. If thought of in terms of a bundle of sticks, the landowner holds a bundle of sticks, but has transferred the "sticks" related to future development to the department. Therefore, a conservation easement is an interest in land management, but is not a form of land ownership. However, the legislature may not have contemplated the use of this fund to manage conservation easements.

DP 208 - Dam Safety Act Technical Adjustment - The executive requests authority for continued coverage and support of a Department of Natural Resources and Conservation (DNRC) part-time engineer and associated operations, which provide dam safety expertise for FWP owned water impoundment projects. Use of contracted services would allow for FWP oversight of work and support with general license funds.

New Proposals

New Proposals										
Program	FTE	Fiscal 2008				Fiscal 2009				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 209 - Field Services Overhead Refund										
02	0.00	0	290,841	(290,841)	0	0.00	0	290,841	(290,841)	0
Total	0.00	\$0	\$290,841	(\$290,841)	\$0	0.00	\$0	\$290,841	(\$290,841)	\$0

DP 209 - Field Services Overhead Refund - The executive is requesting a technical budget adjustment to comply with the department's most recent legislative audit. If approved, the department would be able to deposit and expend federal grant revenues for department indirect charges from the general license account.

**LFD
COMMENT**

Please see agency issues for a full description of the legislative audit findings.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	143.02	2.00	0.00	145.02	3.00	0.00	146.02	146.02
Personal Services	6,619,541	1,274,608	0	7,894,149	1,338,007	0	7,957,548	15,851,697
Operating Expenses	3,801,751	869,351	1,050,000	5,721,102	881,984	1,050,000	5,733,735	11,454,837
Equipment	289,897	243,000	0	532,897	231,500	0	521,397	1,054,294
Grants	70,000	0	0	70,000	0	0	70,000	140,000
Total Costs	\$10,781,189	\$2,386,959	\$1,050,000	\$14,218,148	\$2,451,491	\$1,050,000	\$14,282,680	\$28,500,828
General Fund	0	0	250,000	250,000	0	250,000	250,000	500,000
State/Other Special	4,092,689	611,173	240,761	4,944,623	662,250	240,761	4,995,700	9,940,323
Federal Special	6,688,500	1,775,786	559,239	9,023,525	1,789,241	559,239	9,036,980	18,060,505
Total Funds	\$10,781,189	\$2,386,959	\$1,050,000	\$14,218,148	\$2,451,491	\$1,050,000	\$14,282,680	\$28,500,828

Program Description

The Fisheries Division is responsible for preserving and perpetuating aquatic species and their ecosystems and for meeting public demand for fishing opportunities and aquatic wildlife stewardship. The division formulates and implements policies and programs that emphasize management for wild fish populations and the protection and restoration of habitat necessary to maintain these populations. The program:

1. Operates a hatchery program to stock lakes and reservoirs where natural reproduction is limited;
2. Regulates angler harvests;
3. Monitors fish populations; and
4. Provides and maintains adequate public access.

Program Highlights

Fisheries Division	
Major Program Highlights	
♦	The division is seeking an additional \$3.9 million for hatchery operations, participation in state wildlife grants and additional field staff.
♦	The executive is seeking to add 3.00 FTE over the biennium <ul style="list-style-type: none"> • 1.00 FTE as a Butte area biologist • 2.00 FTE among regions to assist fisheries biologists
Major LFD Issues	
♦	The warm water fish stamp revenues are insufficient to cover the costs of operations and maintenance at the Fort Peck Hatchery

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table						
Fisheries Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ -	-	\$ 250,000	1.8%	\$ 250,000	1.8%
01100 General Fund	-	-	250,000	1.8%	250,000	1.8%
02000 Total State Special Funds	4,092,689	38.0%	4,944,623	34.8%	4,995,700	35.0%
02148 Paddlefish Roe Account	25,000	0.2%	25,000	0.2%	25,000	0.2%
02409 General License	3,764,969	34.9%	4,436,679	31.2%	4,487,756	31.4%
02942 Warm Water Fish Stamp	302,720	2.8%	482,944	3.4%	482,944	3.4%
03000 Total Federal Special Funds	6,688,500	62.0%	9,023,525	63.5%	9,036,980	63.3%
03097 Fedl Fish(W/B) Wildlife(P/R)	4,473,913	41.5%	5,110,878	35.9%	5,119,824	35.8%
03403 Misc. Federal Funds	2,173,826	20.2%	3,312,647	23.3%	3,317,156	23.2%
03404 Overhead	40,761	0.4%	-	-	-	-
03408 State Wildlife Grants	-	-	600,000	4.2%	600,000	4.2%
Grand Total	\$ 10,781,189	100.0%	\$ 14,218,148	100.0%	\$ 14,282,680	100.0%

The division is funded with 63 percent federal revenues, the largest source of which is the Wallup-Breaux program for sport fish restoration. (See the agency wide issues on federal funding for a detailed explanation.) General license dollars contribute 31 percent of the division's funding and are used for fish restoration and hatchery support. The balance of funding is from the warm water fish stamp earmarked for the operations of the Fort Peck Hatchery, and the state wildlife grant program and the corresponding general fund match.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
Fiscal 2008					Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				1,098,525					1,126,039
Vacancy Savings				(308,723)					(309,820)
Inflation/Deflation				193,156					207,432
Fixed Costs				(3,853)					(3,853)
Total Statewide Present Law Adjustments				\$979,105					\$1,019,798
DP 301 - Fort Peck Base Adjustments									
0.00	0	180,224	0	180,224	0.00	0	180,224	0	180,224
DP 302 - Fish Management Biologists and Techs									
2.00	0	30,208	90,622	120,830	3.00	0	65,550	79,119	144,669
DP 303 - Operations Cost Adjustment									
0.00	0	26,700	80,100	106,800	0.00	0	26,700	80,100	106,800
DP 307 - Fisheries Legislative Contract Authority OTO									
0.00	0	0	1,000,000	1,000,000	0.00	0	0	1,000,000	1,000,000
Total Other Present Law Adjustments									
2.00	\$0	\$237,132	\$1,170,722	\$1,407,854	3.00	\$0	\$272,474	\$1,159,219	\$1,431,693
Grand Total All Present Law Adjustments				\$2,386,959					\$2,451,491

LFD COMMENT

The primary components driving the personal adjustment are \$489,000 for vacancies and \$143,703 for non-legislative pay adjustments. The remainder is attributable to the annualization of the previous pay plan, longevity adjustments and increases to employer paid health insurance premiums. The non-legislative pay increases are attributable to market adjustments provided to conservation technicians and fish culturists.

DP 301 - Fort Peck Base Adjustment - Construction of the FT Peck Hatchery was delayed and the hatchery was not operational until January 2006. As a result, operational expenses were not fully expended during the base year. The executive requests spending authority to maintain the base budget for hatchery operations and maintenance.

**LFD
ISSUE****Insufficient Funding**

Licensed anglers who wish to fish in waters where stocking may occur from the Fort Peck operations must purchase a \$5.00 warm water fish stamp. Statute directs hatchery operations to be fully funded by proceeds from the warm water fish stamp along with any available federal revenue received for the purposes of the Fort Peck hatchery. The revenues from stamp sales do not keep pace with operation costs and the state has not received operations funding from the federal government. The revenues projected for FY 2007 are \$293,000 and expenditures are budgeted at \$485,000.

Montana anglers are split on the issue of funding operations at the Fort Peck Hatchery. The department has been working with interest groups on both sides of the issue. Cold water fish groups have historically opposed the use of general license dollars to support the hatchery and support an increase to the warm water stamp, while warm water groups support an increase in the general fishing license to support the hatchery.

There are two issues for consideration:

- Level of fees to support the program; and
- Use of other department funds.

Fees

As per Figure 7, the fund is projected to receive \$560,000 in revenues during the 2009 biennium and expend \$1.0 million, leaving a \$378,000 balance at the end of the 2009 biennium. Without a change in the fee, the fund will be unable to support the hatchery during the 2011 biennium.

Figure 7 provides two fee options for comparative purposes. As shown, the fee would have to double from \$5.00 to \$10.00 for the fund to be structurally balanced and allow for some expenditure growth in the 2011 biennium. Increasing the fee to \$7.50 would not make the fund structurally balanced, but the increased revenue stream would slow the spend down of the fund balance.

Use of other Department Funds

Statistics from license year 2005 indicate that 26 percent of all licensed resident anglers purchase a warm water fish stamp. There is a correlation between the GLA and the warm water fishing industry. Therefore, the legislature does have the option of modifying 87-3-236, MCA to allow for general license dollars to support the hatchery. Without this modification, the appropriation of general license dollars for hatchery operations violates Montana law.

Construction of the Fort Peck Hatchery was completed with federal funding. There remains a possibility of the department receiving federal assistance to operate the hatchery. The 2005 Legislature addressed this by providing language to replace state special revenue with federal revenue, if this did occur. Without this language the department could accept the federal funds through a budget amendment and potentially still have authority to spend the state special revenue.

Figure 7
Warm Water Fish Stamp
Projected Fund Balance

Price Per Stamp	\$5.00	\$7.5	\$10.0
FYE 2006 Balance	\$1,066,077	\$1,066,077	\$1,066,077
FY 2007 Projected Revenues	293,542	293,542	293,542
FY 2007 Appropriations*	(510,737)	(510,737)	(510,737)
FY 2007 Projected Ending Fund Balance	<u>848,882</u>	<u>848,882</u>	<u>848,882</u>
FY 2008 Projected Revenues	280,000	419,621	559,420
FY 2008 Requested Budget*	(510,737)	(510,737)	(510,737)
FY 2008 Projected Ending Fund Balance	<u>618,145</u>	<u>757,766</u>	<u>897,565</u>
FY 2009 Projected Revenues	280,000	419,621	559,420
FY 2009 Requested Budget*	(510,737)	(510,737)	(510,737)
FY 2009 Projected Ending Fund Balance	<u>\$387,408</u>	<u>\$666,650</u>	<u>\$946,248</u>

* includes non-budgeted overhead transfer

**LFD
ISSUE
CONT.**

In summary, the legislature may wish to consider the following options to address the funding issue at Fort Peck Hatchery:

- Propose legislation to increase the warm water stamp fee
- Propose legislation to modify 87-3-236, MCA to allow the expenditure of general license funds to support hatchery operations, and
- Propose a transfer of funds from the GLA to the warm water stamp fund; or
- Directly appropriate GLA funds for hatchery operations

The legislature may also wish to condition the appropriation to address potential federal funding and reduce general license or warm water stamp state special revenue.

DP 302 - Fish Management Biologists and Techs - The executive is requesting 2.00 FTE in FY 2008 and 3.00 FTE in FY 2009 for biologists and fish technicians and corresponding operating expenses. The additional FTE would be used to provide better management of the Big Hole, Beaverhead and Ruby Rivers. The additional FTE in FY 2009 is requested to replace a modified FTE funded with one-time only authority from the future fisheries program.

DP 303 - Operations Cost Adjustment - The executive is requesting additional operations funding to cover increased costs including:

- Contract services for stream gauging, fisheries monitoring, and fish health monitoring
- Hatchery costs including utilities, distribution truck fuel motorboat fuel, and fish food
- Other costs such as mailing costs for angler surveys and office rent

DP 307 - Fisheries Legislative Contract Authority OTO - The executive is requesting \$1.0 million per fiscal year in short-term contract authority for projects using federal funding.

**LFD
COMMENT**

Please see agency issues for a full description of Legislative Contract Authority.

New Proposals

Fiscal 2008						Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 306 - Fisheries Statewide Wildlife Grants										
03	0.00	250,000	200,000	600,000	1,050,000	0.00	250,000	200,000	600,000	1,050,000
DP 308 - Fisheries Overhead Refund										
03	0.00	0	40,761	(40,761)	0	0.00	0	40,761	(40,761)	0
Total	0.00	\$250,000	\$240,761	\$559,239	\$1,050,000	0.00	\$250,000	\$240,761	\$559,239	\$1,050,000

DP 306 - Fisheries Statewide Wildlife Grants - The executive requests appropriation authority to continue FWP participation in the state wildlife grant program. The program provides funds to FWP to conserve native fish and wildlife species as well as reduce the potential for federal listing of species. This decision package requests authority to spend \$1.2 million in federal funds, \$600,000 in general fund and \$400,000 in general license funds during the next biennium.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The state wildlife grant program implements Montana's Comprehensive Fish and Wildlife Conservation Strategy (CFWCS) to address the conservation needs of those species that FWP has not typically had funding to manage.

Goal: To continue implementation of the Montana Comprehensive Fish and Wildlife Conservation Strategy in order to actively protect and restore species and habitats in need of conservation.

Performance Criteria:

- Limit the need to list additional species under the endangered species act (ESA) because better biological data would allow to active protection and restoration of species and habitats in need of conservation
- Successfully restore and/or protect aquatic habitats identified in the plan as in need of conservation
- Collect basic biological data about lesser known species of concern to determine their distribution, status, and habitat needs in order to undertake activities that would preclude the need to list additional species under the ESA

Milestones:

- November 2006– Request that FWP staff and partners identify and submit proposed ideas for projects to the Technical Committee
- January 2007– May 2007 - Principle staff incorporates projects into bundles, balance target allocations and seeks approval from steering committee for projects
- June 2007 – Submission of federal aid documentation
- Post June 2007 – Project implementation
- August 2007 – Begin process again with request for proposals

FTE: A combination of existing staff, contracts and modified FTE will complete the work.

Funding: Fifty percent of funding will be provided from federal funding through the State Wildlife Grant Program (SWG) and the required match will be 17 percent from general license revenues, 21 percent general fund, and 12 percent from private sources.

Obstacles: The CFWCS evaluated the needs of over 600 vertebrate species in multiple habitat types across the state. The list of actions needed to conserve all these species and their habitats is extensive.

Risks: The CFWCS identifies the species in greatest conservation need along with their related habitats and communities. By not implementing this plan, it is possible that more species will become threatened and endangered in the future.

**LFD
ISSUE**

Management of State Wildlife Grants

There are three issues associated with this request.

- Outcomes of SWG projects from the last biennium;
- Development of performance criteria; and
- Appropriation of general fund.

Outcomes from the 2007 Biennium

The department has 15 projects currently in progress. This request is for additional projects to implement the conservation plan. The outcomes of the 2007 biennium could demonstrate the successes and challenges in this program. The legislature may wish to examine the progress towards program objectives based on current projects.

**LFD
ISSUE
CONT.**Development of performance criteria

As provided the performance measures are not specific, quantifiable or time bound as required by state law, thus limiting the ability of the legislature to formulate appropriations policy. Without such information, the legislature is unable to establish their intent for this program. At this writing the department was developing a comprehensive conservation action plan to implement the CFCWS. This action plan should be the guiding document for the State Wildlife Grant Program within the department and be used to rewrite the performance criteria.

General Fund

There is an issue of whether general fund should be utilized for the purpose of species and habitat conservation when potential other sources of revenue exist. Other sources could include the general license account, financial participation from conservation partners, or habitat funding already managed by the department. This request, if approved, will establish base budget general fund authority for the Fisheries Division.

In summary, the legislature may wish to consider the following when deliberating on the appropriation for the state wildlife grant program

- o Examine the outcomes of SWG projects from the 2007 biennium
- o Examine the CFWCS implementation plan to:
 - Strengthen program performance objectives to allow for formulation of appropriations policy and future measurement of success
 - Determine whether there is a general benefit to the state that would support using general fund for this appropriation request
- o Replace general fund with general license, river restoration or future fisheries fund, or private donations

DP 308 - Fisheries Overhead Refund - The executive is requesting a technical budget adjustment to comply with the department's most recent legislative audit. If approved, the department would be able to deposit and expend federal grant revenues for department indirect charges from the general license account.

**LFD
COMMENT**

Please see agency issues for a full description of the legislative audit findings.

Language

"During the 2009 biennium, if the department obtains federal funding for the operations of the Fort Peck fish hatchery, it must be used to replace state special revenue approved to fund personal services and operational costs of the hatchery."

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	108.73	2.00	2.00	112.73	2.00	2.00	112.73	112.73
Personal Services	5,730,967	484,823	86,118	6,301,908	508,053	86,262	6,325,282	12,627,190
Operating Expenses	1,565,863	347,417	43,000	1,956,280	344,917	24,000	1,934,780	3,891,060
Equipment	82,664	11,000	11,000	104,664	0	0	82,664	187,328
Grants	35,400	0	0	35,400	0	0	35,400	70,800
Total Costs	\$7,414,894	\$843,240	\$140,118	\$8,398,252	\$852,970	\$110,262	\$8,378,126	\$16,776,378
General Fund	0	139,032	0	139,032	116,612	0	116,612	255,644
State/Other Special	7,112,336	592,647	140,118	7,845,101	623,828	110,262	7,846,426	15,691,527
Federal Special	302,558	111,561	0	414,119	112,530	0	415,088	829,207
Total Funds	\$7,414,894	\$843,240	\$140,118	\$8,398,252	\$852,970	\$110,262	\$8,378,126	\$16,776,378

Program Description

The Law Enforcement Division is responsible for ensuring compliance with laws and regulations pertaining to the protection and preservation of big game animals, fur-bearing animals, fish, game birds, and other protected wildlife species. It also enforces the laws and regulations relative to lands or waters under agency jurisdiction and the authority of the department such as parks, fishing access sites, and wildlife management areas, as well as those laws and regulations pertaining to boating, outfitters/guides and snowmobile and off highway vehicles safety and registration. Other duties include block management patrols, stream access enforcement, commercial wildlife permitting, hunter education license vendor contacts, game damage response, urban wildlife activities, and assisting other law enforcement agencies as requested.

Program Highlights

Law Enforcement Division	
Major Program Highlights	
♦	The executive is requesting funding for four wardens: <ul style="list-style-type: none"> • 2.0 FTE regional investigators • 2.0 FTE state trust lands wardens
♦	Additional increases are for warden overtime, parks enforcement, and investigative costs for the Board of Outfitters
Major LFD Issues	
♦	The use of state trust lands revenue may not be appropriate

Funding

The Enforcement Division is funded primarily with general license dollars. Other state special revenue includes variable priced outfitter sponsored license revenues, fuel taxes, off highway vehicle, and snowmobile registration fees. Federal funds are primarily from the US Coast Guard and require a 25 percent match supplied by the general license account. General fund is proposed to provide funding for the Regional Investigator Program.

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Enforcement Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ -	-	\$ 139,032	1.7%	\$ 116,612	1.4%
01100 General Fund	-	-	139,032	1.7%	116,612	1.4%
02000 Total State Special Funds	7,112,336	95.9%	7,845,101	93.4%	7,846,426	93.7%
02115 Off-Highway Vehicle Fines	45,921	0.6%	83,178	1.0%	83,474	1.0%
02241 Dsl Recreational Use Account	-	-	49,041	0.6%	38,592	0.5%
02329 Snowmobile Fuel Tax-Enforcemnt	25,090	0.3%	15,090	0.2%	15,090	0.2%
02334 Market Based Combo Sales	297,754	4.0%	363,355	4.3%	363,355	4.3%
02409 General License	6,418,878	86.6%	6,887,848	82.0%	6,918,516	82.6%
02411 State Parks Miscellaneous	126,427	1.7%	173,559	2.1%	173,184	2.1%
02413 F & G Motorboat Cert Id	109,318	1.5%	75,552	0.9%	75,552	0.9%
02414 Snowmobile Reg	68,950	0.9%	86,403	1.0%	86,995	1.0%
02558 Fas - Vehicle Registration	19,998	0.3%	19,998	0.2%	19,998	0.2%
02938 Tlmd - Administration	-	-	91,077	1.1%	71,670	0.9%
03000 Total Federal Special Funds	302,558	4.1%	414,119	4.9%	415,088	5.0%
03403 Misc. Federal Funds	302,558	4.1%	414,119	4.9%	415,088	5.0%
Grand Total	<u>\$ 7,414,894</u>	<u>100.0%</u>	<u>\$ 8,398,252</u>	<u>100.0%</u>	<u>\$ 8,378,126</u>	<u>100.0%</u>

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2008						Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				436,092					460,150	
Vacancy Savings				(246,685)					(247,641)	
Inflation/Deflation				188,940					199,168	
Fixed Costs				(2,827)					(2,827)	
Total Statewide Present Law Adjustments				\$375,520					\$408,850	
DP 402 - Warden Overtime	0.00	0	192,000	8,000	200,000	0.00	0	192,000	8,000	200,000
DP 403 - Block Management	0.00	0	18,561	0	18,561	0.00	0	18,561	0	18,561
DP 404 - Parks Enforcement	0.00	0	6,200	0	6,200	0.00	0	6,200	0	6,200
DP 406 - Board of Outfitters	0.00	0	20,000	0	20,000	0.00	0	20,000	0	20,000
DP 407 - Regional Investigators (Requires Legislation)	2.00	139,032	7,318	0	146,350	2.00	116,612	6,138	0	122,750
DP 409 - Radio Dispatch	0.00	0	31,609	0	31,609	0.00	0	31,609	0	31,609
DP 410 - Off Highway Vehicle	0.00	0	30,000	0	30,000	0.00	0	30,000	0	30,000
DP 411 - Legislative Contract Authority OTO	0.00	0	0	15,000	15,000	0.00	0	0	15,000	15,000
Total Other Present Law Adjustments										
	2.00	\$139,032	\$305,688	\$23,000	\$467,720	2.00	\$116,612	\$304,508	\$23,000	\$444,120
Grand Total All Present Law Adjustments				\$843,240					\$852,970	

**LFD
COMMENT**

The primary components driving the personal services adjustment are about \$267,300 for vacancies, and \$13,408 for non-legislative pay adjustments. The remainder is attributable to the annualization of the previous pay plan, longevity adjustments and increases to employer paid health insurance premiums. The non-legislative pay increases are attributable to union negotiations.

DP 402 - Warden Overtime - The executive requests authority to provide overtime compensation to addresses staffing needs of the division and meet the terms of MPEA Fish and Game Wardens bargaining agreement.

**LFD
COMMENT**

The request is equal to the historical average overtime expenditures.

DP 403 - Block Management - The 2005 Legislature modified Title 87, Chapter 1, and part 2 to include authority for the department to create an annual lottery for a moose, sheep, goat, deer, and elk super tag. A portion of the revenue was earmarked for enforcement. The executive requests \$18,561 each year to raise the base to the level approved for FY 2007 only.

**LFD
COMMENT**

See DP 201 under Field Services Division for additional information regarding the super tag program.

DP 404 - Parks Enforcement - The executive requests a base adjustment to restore operations costs associated with vacant positions in the base year.

**LFD
COMMENT**

The division experienced significant turnover due to a retirement cycle. Fifteen new wardens were hired throughout FY 2006. The department does not anticipate this level of turnover in the 2009 biennium.

DP 406 - Board of Outfitters - The executive requests an increase in operational funding each year by an additional \$20,000 to a level of \$60,000 annually for FWP to conduct compliance checks and investigations for outfitters and guides

DP 407 - Regional Investigators- The executive requests 2.00 FTE for regional investigator positions to address investigative shortfalls by focusing on serious resource abuse and commercialized wildlife crimes. This request includes \$255,000 of general fund.

**LFD
COMMENT**

The 2005 legislature approved the hiring of 2.00 FTE regional investigator positions and required performance management reporting during the interim to the Legislative Finance Committee (LFC). The final report to the LFC provided a summary of activities through August 30, 2006. Highlights from

the report include:

- 1,608 violations detected, 551 charged
- 41 license fraud cases, eight referrals to the Department of Revenue for residency issues
- 138 interviews with informants, 213 interviews with persons of interest, and 69 intelligence reports completed
- Fines levied of \$122,775 and an additional \$85,00 in restitution
- 164.5 years of privileges suspended, 1 life time suspension, and 1 prison term

**LFD
ISSUE****Legislative Expectations/General Fund Utilization**

There are two issues in relation to this request: 1) legislative expectations of two additional investigators; and 2) the use of general fund.

Additional Staff

The addition of two regional investigators does not guarantee the same rate of return as experienced in 2006. As part of the deliberations process the legislature may wish to discuss with the department:

- Incremental outcomes associated with the two additional positions
- Performance criteria for a potentially expanded investigation program

The first \$60,000 in fines is credited to the department and deposited to general license account. The remaining fees are deposited to the general fund. The issue is whether the legislature chooses to utilize general fund for the investigation of resource abuse and wildlife crimes. This request, if approved, will establish base budget general fund authority for the Enforcement Division. The current investigators are funded from the general license account. The legislature may wish to:

- Request legislation to re-direct a greater portion of wildlife fines to the general license account and fund the positions from the general license account
- Fund the request from the general license account
- Make no changes

DP 409 - Radio Dispatch - The executive is requesting funding to support an additional dispatcher in the Montana Highway Patrol (MHP) dispatch center. The additional dispatcher would provide manpower to handle basic mobile radio services for Montana Game Wardens, including but not limited to dispatch coordination for FWP response, TIP-MONT, and license and violation database query. Use of contracted services would allow for FWP oversight of work and expenditures of general license funds.

DP 410 - Off Highway Vehicle - The executive is requesting authority for the Off Highway Vehicle (OHV) decal fund to potentially conduct a public review of hunting related use of OHVs. The FWP Commission would need to approve this project.

DP 411 - Legislative Contract Authority OTO - The executive is requesting \$40,000 per fiscal year in short-term contract authority for projects using federal funding

**LFD
ISSUE**

Due to the small amount of authority being requested, the legislature may wish to disapprove the decision package and direct the department to utilize the budget amendment process for potential federal funding. Please see agency issues for a full description of legislative contract authority.

New Proposals

New Proposals										
Program	FTE	Fiscal 2008				Fiscal 2009				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 412 - State Lands Wardens										
04	2.00	0	140,118	0	140,118	2.00	0	110,262	0	110,262
Total	2.00	\$0	\$140,118	\$0	\$140,118	2.00	\$0	\$110,262	\$0	\$110,262

DP 412 - State Lands Wardens - The executive is requesting 2.00 FTE and \$172,830 in state special revenue authority to enable the department to provide unrestricted enforcement of state trust land recreational use rules. The FTE would provide enforcement in specific problem areas. The funding source is the trust land administration fund and the recreational use fund, both of which receive revenues from the activities associated with state trust lands.

Justification: Violations such as littering, illegal dumping, off-road motor vehicle use, and illegal shooting are committed on state trust lands by persons engaged in activities other than hunting or fishing. The hiring and funding of these wardens would allow DNRC to concentrate enforcement efforts in specific problem areas and to bolster all aspects of enforcement of the rules on a year-round basis without the current restrictions placed on other wardens.

Goal: To minimize damage to the state trust resources, to decrease the amount of funds being expended to remediate damages and to generate additional revenues to the affected trusts through increased license sales, and to improve communication and coordination affecting statewide enforcement efforts with other FWP game wardens.

Performance Criteria: The position descriptions and work plans will establish goals and objectives necessary to enhance enforcement of the state land recreational use rules. DNRC will enter into an MOU with FWP in order to direct the specific duties, priorities, and reporting requirements necessary to establish and maintain accountability for the work performed.

Milestones:

- Work with DNRC Area and Unit Offices to identify problem areas and/or areas with known concentrated recreational use.
- Inspect identified sites, prioritize them by degree of damage, extent of use, etc., and develop strategies and timetables for implementing enforcement actions.
- Work with local courts to inform them of identified problems and plans of action for enforcement in an effort to bolster their support in the prosecution of violators cited under criminal code
- Meet with other game wardens on a statewide basis to educate them about the rules, problem areas, prosecution options, etc. in order to sustain or improve relationships and to solicit their continued cooperation and assistance in enforcement of the program.
- Develop and implement program educational strategies, including disbursement and/or presentation of informational material to the public, license agents, and other special use interest groups.

FTE: The hire date would be within 3 months of approval of the FTE.

Funding: This position would be funded by the trust land administration account (02938 fund) and the recreational use account (02241 fund). The recreational use account collects \$1.50 from the sale of each conservation license to reimburse the trusts for the use of state land.

Obstacles: None.

Risk: DNRC would continue to not be able to provide direct enforcement in areas experiencing concentrated use with repeated violations that result in resource damage or which are committed by persons engaged in activities other than hunting and fishing. Such damage ultimately impacts the long-term income generating potential derived from use of the affected tract(s) and requires substantial expenditures for remediation of the damages to resources and other improvements located on the lands.

**LFD
ISSUE****Coordination With Trust Land Management**

State trust lands are not defined in statute. However, they are those lands that are held in trust for beneficiaries such as common schools, and the university system, and for the benefit of public institutions. Those tracts are referred to as trust lands. Title 77 of the Montana Code Annotated does not consistently differentiate policy towards trust lands differently than state lands.

The department identifies the restricting factor of this proposal as the current funding source of the game wardens. The department believes that enforcing general recreation, trespass, or criminal mischief on state trust lands when the individual is not engaged in hunting or fishing inappropriately diverts license revenues. License revenues are pledged to be used for the management of the activities of the fish and game agency of the state in order to obtain federal funds. (See general agency issues for more information.) However, the Enforcement Division also receives boat, OHV and snowmobile decal revenue and state parks funding which provides funding for the wardens to enforce licensing and use issues of recreational vehicles and within state parks.

The proposal as written does not provide specific performance criteria in which to measure the progress toward the stated goal. The progress should be measured based upon data relating to the goal, not the implementation of a job description. For example, does the legislature wish to know how many violations were issued on state trust parcels or if the state experienced a reduced amount of expenditures for resource remediation? If the FTE are key to completing the goal, the performance criteria need to demonstrate their role in getting to the goal.

Milestones are generally provided to give the legislature a snapshot of what should occur over the biennium. The only time related item is the hiring of the FTE three months after approval. This tells the legislature when to expect the person to be hired, but does not provide any idea of when key activities of implementation will occur. Does the legislature wish to have a clearer picture about how this new activity will be implemented?

The idea of hiring two FTEs for a specific area addresses only a part of the problem. Resource damage is occurring across the state. Placing the two FTE in high risk areas would provide short term impact. However the long term impact on state lands is not being addressed. With the decision package conditioned as one-time only, the legislature would commit to see if it works in the short term with limited staff and limited jurisdiction. A review of statutes and an alternative funding mechanism could be established to assure state wide coverage.

There is also proposed legislation to redefine the means in which state land management is funded. Should any of those be passed and approved, the funding source of this package may need to be altered.

In summary, the legislature may wish to:

- Receive and review performance criteria, milestones, and a long range plan for the program prior to deliberations
- Request legislation to expand the authority of state game wardens to include recreational activities to allow current game wardens to enforce some of the issues arising on state trust lands
- Rebase the Enforcement Division's budget to replace general license funds with state trust funds to alleviate some of the issues related to enforcement funding
- Expand the package to increase the number of wardens dedicated to state trust land issues
- Disapprove this package and fund 2.00 FTE in DNRC to work with local law enforcement to address these issues
- Make no changes

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	101.43	2.50	0.00	103.93	2.50	0.00	103.93	103.93
Personal Services	5,169,939	631,435	0	5,801,374	656,135	0	5,826,074	11,627,448
Operating Expenses	2,677,895	949,035	1,050,000	4,676,930	956,560	1,050,000	4,684,455	9,361,385
Equipment	55,290	0	0	55,290	0	0	55,290	110,580
Grants	136,237	0	0	136,237	0	0	136,237	272,474
Total Costs	\$8,039,361	\$1,580,470	\$1,050,000	\$10,669,831	\$1,612,695	\$1,050,000	\$10,702,056	\$21,371,887
General Fund	0	0	250,000	250,000	0	250,000	250,000	500,000
State/Other Special	4,136,295	638,046	273,382	5,047,723	654,135	273,382	5,063,812	10,111,535
Federal Special	3,903,066	942,424	526,618	5,372,108	958,560	526,618	5,388,244	10,760,352
Total Funds	\$8,039,361	\$1,580,470	\$1,050,000	\$10,669,831	\$1,612,695	\$1,050,000	\$10,702,056	\$21,371,887

Program Description

The Wildlife Division is responsible for the department's statewide Wildlife Management Program, which enhances the use of Montana's renewable wildlife resources for public benefit. It protects, regulates, and perpetuates wildlife populations with habitat management and regulated harvest. Through promotion of land management practices, wildlife habitat areas are maintained and enhanced. In addition, the program provides wildlife recreational opportunities to the public, including non-game wildlife, and provides public information regarding conservation of wildlife populations and wildlife habitats. The program manages animals legislatively categorized as big game, non-game wildlife, game birds, furbearers, and threatened and endangered species.

Program Highlights

Wildlife Division Major Program Highlights	
♦	The Wildlife Division is requesting \$0.5 million in general fund to provide match to the federal State Wildlife Grant program
♦	As requested, the number of FTE would grow by 2.5 FTE for conflict management, inventory activities and black bear research
Major LFD Issues	
♦	Additional inventory and survey monies may not be justified
♦	Automation of harvest survey may prove costly in terms of the return on investment

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Wildlife Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ -	-	\$ 250,000	2.3%	\$ 250,000	2.3%
01100 General Fund	-	-	250,000	2.3%	250,000	2.3%
02000 Total State Special Funds	4,136,295	51.5%	5,047,723	47.3%	5,063,812	47.3%
02061 Nongame Wildlife Account	43,485	0.5%	43,485	0.4%	43,485	0.4%
02085 Waterfowl Stamp Spec. Rev.	18,842	0.2%	52,942	0.5%	52,942	0.5%
02086 Mountain Sheep Account	46,695	0.6%	79,195	0.7%	79,195	0.7%
02112 Moose Auction	1,207	0.0%	15,207	0.1%	15,207	0.1%
02113 Upland Game Bird Habitat	57,597	0.7%	104,465	1.0%	104,574	1.0%
02176 Mountain Goat Auction	-	-	11,000	0.1%	11,000	0.1%
02409 General License	3,711,886	46.2%	4,435,046	41.6%	4,451,026	41.6%
02469 Habitat Trust Interest	256,433	3.2%	256,433	2.4%	256,433	2.4%
02559 Mule Deer Auction	150	0.0%	14,950	0.1%	14,950	0.1%
02560 Elk Auction	-	-	35,000	0.3%	35,000	0.3%
03000 Total Federal Special Funds	3,903,066	48.5%	5,372,108	50.3%	5,388,244	50.3%
03097 Fedl Fish(W/B) Wildlife(P/R)	3,712,870	46.2%	4,168,036	39.1%	4,183,945	39.1%
03403 Misc. Federal Funds	116,814	1.5%	604,072	5.7%	604,299	5.6%
03404 Overhead	73,382	0.9%	-	-	-	-
03408 State Wildlife Grants	-	-	600,000	5.6%	600,000	5.6%
Grand Total	<u>\$ 8,039,361</u>	<u>100.0%</u>	<u>\$ 10,669,831</u>	<u>100.0%</u>	<u>\$ 10,702,056</u>	<u>100.0%</u>

The Wildlife Division state special revenue consists primarily of hunting and fishing license revenue from the general license account. Earmarked fees support all of the Upland Game Bird Program and the Wildlife Habitat Program operations. Other specialized funding consists of Pittman-Robertson funds that require a 25 percent non-federal match that is typically met with funds from the general license account.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2008-----						-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					574,397					599,738
Vacancy Savings					(229,774)					(230,780)
Inflation/Deflation					123,963					131,783
Fixed Costs					(2,847)					(2,847)
Total Statewide Present Law Adjustments					\$465,739					\$497,894
DP 501 - Survey & Inventory Funding	1.00	0	150,000	150,000	300,000	1.00	0	150,000	150,000	300,000
DP 502 - R1 Wildlife Conflict Specialist	1.00	0	51,852	0	51,852	1.00	0	51,922	0	51,922
DP 504 - Harvest Survey Automation	0.00	0	20,000	60,000	80,000	0.00	0	20,000	60,000	80,000
DP 505 - Black Bear Research OTO	0.50	0	8,620	25,859	34,479	0.50	0	8,620	25,859	34,479
DP 510 - Legislative Contract Authority OTO	0.00	0	0	500,000	500,000	0.00	0	0	500,000	500,000
DP 511 - Deer, Elk, Moose, Goat, Sheep Auctions	0.00	0	107,300	0	107,300	0.00	0	107,300	0	107,300
DP 513 - Migratory Bird Fund/Upland Game Bird	0.00	0	41,100	0	41,100	0.00	0	41,100	0	41,100
Total Other Present Law Adjustments										
	2.50	\$0	\$378,872	\$735,859	\$1,114,731	2.50	\$0	\$378,942	\$735,859	\$1,114,801
Grand Total All Present Law Adjustments					\$1,580,470					\$1,612,695

**LFD
COMMENT**

Of the total biennial personal services adjustment, \$11,936 is for vacancies and \$11,488 is for non-legislative pay adjustments. The remainder is to annualize the pay plan approved by the 2005 Legislature, longevity adjustments, and increases to employer paid health insurance premiums.

DP 501 - Restore Survey & Inventory Money – The executive requests funding for operations and FTE to refine and increase the amount of survey and inventory work completed. The continued 1.00 FTE would provide pilot services to conduct aerial surveys.

**LFD
ISSUE****Outcomes of Surveys**

State law directs the department to calculate game animal population and determine the appropriate number of elk, deer and antelope that can be viably sustained. Those calculations must be made available to the public. This proposal is requesting funding for the survey and inventory program to be included in the base budget and increase operations by \$200,000 over the biennium. The 2005 legislature approved \$500,000 over the biennium as a one-time only restricted appropriation for the same purpose.

The LFD has identified the following issues:

Reporting Requirements: The appropriation approved by the 2005 Legislature was conditioned with a reporting requirement. The legislature originally requested this information in order to determine if increased funding for air support positively impacted the wildlife survey process. That requirement was subsequently line item vetoed by the Governor but the veto was then challenged. The validity of the veto is still not resolved. Consequently, the Environmental Quality Council (EQC) did not review the outcomes of FY 2006 survey and inventory activities, and information necessary to determine whether to continue the program was not presented to any committee. In reviewing this proposal the legislature may wish to:

- o Receive information regarding program outcomes of the FY 2006 expenditures

If the legislature wishes to fund the program, either:

- o Condition the appropriation with reporting requirements
- o Request a companion bill requiring program reporting requirements

FY 2006 Expenditures: The department expended \$128,000 of the \$250,000 appropriation in FY 2006. Expenditures by category are summarized in Figure 8. The FY 2008 request is 134 percent higher than the actual expenditures of FY 2006.

The legislature may wish to:

- o Obtain a plan from the department detailing how the increase funding will be used, beyond flying additional hours.
- o Decrease the decision package to 2007 biennium levels

Figure 8
Comparison of FY 2006 Expenditures to FY 2008 Request
Enhanced Survey & Inventory

	FY 2006	FY 2008	Percent Change
Personal Services	\$27,735	\$61,332	
Operating Expenses	100,343	238,668	
Total	<u>\$128,078</u>	<u>\$300,000</u>	134%

Species: Surveys and inventories are completed based upon protocol established by the department and approved by the federal government as part of Pittman-Robertson funding requirements. The protocol covers big game and upland game birds. The deliberations from the 2005 legislative session indicate that the FY 2006 and FY 2007 appropriations would be utilized for big game surveys to meet statutory requirements for game counts and habitat assessments, which does not address upland game birds.

**LFD
ISSUE
CONT.**

A summary of survey and inventory expenditures by region and species is in Figure 9 below. This figure does not include statewide administrative expenditures. As per this data, 35 percent of funding was utilized for upland game birds. The legislature may wish to clarify the intent of this appropriation by restricting it big game.

Figure 9 Enhanced Wildlife Surveys By Species, By Region							
Region	Moose	Goat	Sheep	UG Bird	Mule Deer	Elk	Total
Region 1	\$6,389	\$4,000	\$5,200	\$20			\$15,609
Region 2	555						555
Region 3							0
Region 4	5,851			5,470	1,162	2,000	14,483
Region 5	8,219			7,149	2,960	726	19,054
Region 6				8,560	4,880	1,929	15,369
Region 7				9,152	1,000	1,472	11,624
Region 8				44			44
Statewide	10,000						10,000
Total	\$31,014	\$4,000	\$5,200	\$30,395	\$10,002	\$6,127	\$86,738
Percent of Total	36%	5%	6%	35%	12%	7%	

Summary: The legislature has a number of options available to assure that legislative intent is communicated and met regarding survey and inventory funding. The options are not mutually exclusive, and some could be combined. Total package options may include:

- Reduce the decision package to the FY 2006 level, condition the appropriation as restricted and one-time only, and require an interim report to the Environmental Quality Council (EQC)
- Make no changes to the decision package, but condition the appropriation to include a bi-annual performance management report to the EQC
- Restrict the appropriation to big game survey only

DP 502 - R1 Wildlife Conflict Specialist - The executive is requesting 1.00 FTE for a wildlife conflict specialist in Region 1. This position would focus on responding to nuisance black bears and mountain lions in the urban/wild land interface.

**LFD
COMMENT**

The conflict calls are currently being handled by other regional staff. The executive requested but the legislature did not fund a similar budget item during the 2005 legislative session. That package was for \$73,287, which is \$30,487 less than the current request. The difference is attributable to a higher salary in the current decision package.

DP 504 - Harvest Survey Automation - The executive requests \$160,000 to enhance the harvest survey program. This program provides data to FWP biologists to be utilized to implement wildlife management strategies. An independent review was conducted in the fall of 2006 to provide the department with options.

**LFD
ISSUE****Final Report Recommendations**

The final report from the independent review was not available at the time of the budget analysis. Preliminary recommendations included computer system changes, licensing changes, and increased staffing to adequately manage the survey process. The legislature may wish to review the final report before deliberations.

DP 505 - Black Bear Research OTO - The executive requests funding and 0.5 FTE to complete DNA survey techniques in satellite study areas in Regions 2 and 5 and to complete the final study report for this research project. The research results would be used to develop new management criteria using modern techniques to evaluate harvest rates in various DNA study areas across the state.

DP 510 - Legislative Contract Authority OTO - The executive is requesting \$0.5 million per fiscal year in short-term contract authority for projects using federal funding.

**LFD
COMMENT**

Please see agency issues for a full description of Legislative Contract Authority.

DP 511 - Deer, Elk, Moose, Goat, Sheep Auctions - The executive is requesting increased authority to expend the increased revenues from the elk, goat, moose, mule deer and sheep auction receipts. Revenue from the auction of the licenses is dedicated to enhanced survey efforts.

DP 513 - Migratory Bird Fund/Upland Game Bird - The executive is requesting increased appropriation authority of \$82,200 for the wetland and upland game bird programs. The decision package is funded at 83 percent from the waterfowl stamp state special revenue and 17 percent from the upland game bird habitat fund.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The upland game bird enhancement (UGBE) program allows biologists to work with landowners to improve and/or conserve key habitat components that are necessary to upland game birds, including native grouse species.

Goals:

- Increase projects over the next biennium with a balanced approach to native and exotic (i.e., pheasants, partridge, turkeys) game birds
- Improve bookkeeping, project tracking and monitoring and program delivery
- Target sagebrush leasing in the highest priority areas

Performance Criteria:

- Centralize project monitoring with contracted help by August 2007
- Establish promotional and information materials for landowners and prospective cooperators by October 2007
- Update program standards and guidelines to incorporate lessons learned and updated costs by October 2007
- Review project development processes and make improvements to streamline the process by October 2007
- Complete development of project database and enter past project information by January 2008
- Re-evaluate Montana's sagebrush grassland habitats to identify priority areas based on updated monitoring information by August 2007
- As federal matching funds become available, contact owners of priority habitats to solicit interest in sagebrush leasing. Ongoing
- Provide training to new biologists and refreshers for other field staff with incorporated changes. Ongoing

Milestones: FWP will be streamlining application and agreement paperwork to reduce the number of steps needed to establish projects. The target date for streamlining is August 2007. However, if administrative rules need adjusting prior to this, the rule-making process would be initiated by May 2007 with an adjusted target completion date of December 2007.

FTE: Portions of two FWP positions are funded with the administrative fund. They are the Program Coordinator (0.30

FTE) and an administrative support position (0.25 FTE).

Funding: The requested base adjustment is for the earmarked UGBEP administrative fund.

Obstacles:

- Workload - The most significant obstacle for the UGBEP is the workload of field biologists. FWP has relied more on contracted services for some aspects of program delivery and monitoring to help reduce this workload issue or provide new avenues for establishing projects.
- Changing Landscape – In many areas around Montana, high quality upland game bird habitats have drawn interest by recreational buyers (or recreational leases). Substantial opportunities remain for working with landowners through UGBEP, but this emerging trend is likely to continue and at the expense of public hunting opportunities.
- Cost Share and Contract Stipulations – The UGBEP requires a minimum of 25 percent cost shared by outside sources. Whereas this is usually not difficult to achieve, the program requirements (e.g., hunting access, minimum contract length, specific stipulations) in combination with a shared cost by landowners can make establishing projects more difficult.

Risk: Continued UGBEP funding will result in additional acres of enhanced habitats and additional properties open to public upland game bird hunting. If the program were eliminated, there would no longer be any upland game bird contracts with landowners and substantial opportunities for enhancing upland game bird populations and providing access for bird hunters would also be eliminated.

**LFD
ISSUE**

Legislative Intent

During the interim, a number of legislative and public requests were made to the Legislative Fiscal Division regarding the operation of the UGBE program. The following summarizes the issues raised in those responses.

Background

The upland game bird enhancement (UGBE) program was established in 1987 through legislation that increased game bird license fees to fund a pheasant release program. The program provided a cost share on a per bird released basis and the landowner participant had to provide for public hunting. The program was expanded in 1989 through legislation that extended the program to all game bird species, which is defined today in statute (87-2-101 (15), MCA) as the following: sharp tailed grouse, blue grouse, spruce (Franklin) grouse, prairie chicken, sage hen or sage grouse, ruffed grouse, ring-necked pheasant, Hungarian partridge, ptarmigan, wild turkey, and chukar partridge. The 1989 Legislature also included reporting requirements and the requirement that unspent UGBE funds be reverted to the Habitat Montana Program. The reversion requirement was eliminated in 2001 Legislation. Changes in the 2001 session also included revised funding, expenditure requirements for releases, and clarification of program requirements. The statutes have not been changed since the 2001 session.

The UGBE program has provided landowner assistance with habitat through 800 contracts covering over 240,000 acres of land. The release portion of the program has approximately 120 annual contracts and releases 15,000 pheasant. These activities have provided for an estimated 11,000 hunter days. The issue for the legislature is whether or not these statistics represent a successful program. This can be related to funding, priorities and outcomes.

**LFD
ISSUE**Funding

The UGBE program is funded with earmarked portions of the resident and non resident upland game bird and big game combination licenses. The revenue is deposited in two funds, the habitat fund and the release fund. Figure 10 demonstrates the outcomes to funding restrictions in statute. Part one addresses annual revenues to both funds demonstrating the percentage set aside for releases at slightly higher than 15 percent. The second part addresses the percentage of revenue in the release fund that is spent on an annual basis. Statute requires 25 percent of this fund to be spent annually, which the department has exceeded. The third part addresses the restrictions on administrative costs. As shown the department expends six to 11 percent annually on administrative costs.

This figure demonstrates that the department has met the statutory requirements placed on revenues and expenditures. It does not provide any indication of what the department accomplished.

The legislature could accomplish this same control with one fund, appropriated through HB 2. The release fund has been historically appropriated through HB 5 (long range building). However this is not necessary. The legislature could choose to appropriate funding for the program from one fund and utilize language to restrict the spending, if desired.

Priorities

The program started as a pheasant release program, then expanded to all species. The decision of which species to release or manage is left solely to the discretion of the department. For example, in FY 2006 the emphasis for habitat was placed on the sage grouse and the payment to landowners to retain sage brush on their properties. The issue for the legislature is how the program should be implemented, as a habitat program with funding for land improvements and food plots as a release program, or both. Should the legislature wish to prioritize activities of this program, it could be done through HB 2 language or a companion bill.

Objectives and Outcomes

Statute provides direction to the department to implement this program by providing specific guidelines for the implementation of rules. This provides the framework of the program, but does not establish the goal of the program or the corresponding objectives to measure the success of the program. The outcomes of the program are provided in a report to the legislature regarding the program each legislative session. The report provides general statistics representing program activities over the biennium such as how much was spent, how many pheasants were released, and what types of enhancement projects were complete. The report does not tie the activities back to any goals. Therefore the information the legislature is receiving is just that statistics. In order to measure success the statistics have to relate to an objective measuring a goal. Does the legislature want to provide overall general direction by establishing intent to preserve and/or improve a number of acres of habitat land? Or does the legislature see the need to re-establish the goals of the program?

Figure 10
Upland Game Bird Revenues
Part One: Revenues

	2003	2004	2005	2006
Habitat License Revenue	\$539,733	\$585,580	\$574,066	\$576,589
Release License Revenue	96,609	104,496	101,850	102,410
	<u>\$638,345</u>	<u>\$690,076</u>	<u>\$675,916</u>	<u>\$678,999</u>
% of Release Revenue	15%	15%	15%	15%

Part Two: Release Expenditures

	2003	2004	2005	2006
Release License Revenue	\$96,609	\$104,496	\$101,850	\$102,410
Release - Expenditures	97,364	99,836	94,838	114,232
% of Revenue Expended	100.8%	95.5%	93.1%	111.5%

Part 3: Administrative Calculation

	2003	2004	2005	2006
Overhead Transfer	\$27,469	\$28,395	\$18,976	\$45,603
Administration	<u>39,038</u>	<u>32,312</u>	<u>21,365</u>	<u>29,489</u>
	<u>\$66,507</u>	<u>\$60,707</u>	<u>\$40,341</u>	<u>\$75,092</u>
Percentage of Revenue	10%	9%	6%	11%

**LFD
ISSUE
CONT.**

In summary, the legislature has before them many options to consider in deliberating the base operating adjustment to the UGBE program. While the adjustment is small, the overall investment in the program should be considered as part of the deliberations. The legislature may wish to consider the following, most of which require legislation:

- Establish legislative intent for the program in statute
- Establish goals and subsequent objectives for the program if those provided by the department do not accurately reflect the intentions of the legislature.
- Establish program priorities based on species and functions in a companion bill to HB 2
- Remove funding restrictions in the program, consolidate funding to one state special revenue fund, and provide all appropriations through HB 2.
- Increase reporting requirements to include relating program statistics to long term program goals and measurable short term objectives

New Proposals

New Proposals										
Program	FTE	Fiscal 2008				FTE	Fiscal 2009			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 507 - State Wildlife Grants (SWG)										
05	0.00	250,000	200,000	600,000	1,050,000	0.00	250,000	200,000	600,000	1,050,000
DP 514 - Wildlife Overhead Refund										
05	0.00	0	73,382	(73,382)	0	0.00	0	73,382	(73,382)	0
Total	0.00	\$250,000	\$273,382	\$526,618	\$1,050,000	0.00	\$250,000	\$273,382	\$526,618	\$1,050,000

DP 507 - State Wildlife Grants (SWG) - The executive requests appropriation authority to continue FWP participation in the state wildlife grant program. The program provides funds to FWP to conserve native fish and wildlife species as well as reduce the potential for federal listing of species. This decision package requests authority to spend \$1.2 million in federal funds, \$500,000 in general fund and \$400,000 in general license funds during the next biennium.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal

Justification: The state wildlife grant program implements Montana's Comprehensive Fish and Wildlife Conservation Strategy (CFWCS) address the conservation needs of those species that FWP has not typically had funding to manage.

Goal: To continue implementation of the Montana Comprehensive Fish and Wildlife Conservation Strategy in order to actively protect and restore species and habitats in need of conservation.

Performance Criteria:

- Limit the need to list additional species under the endangered species act (ESA) because we have better biological data allowing us to actively protect and restore species and habitats in need to conservation.
- We will successfully restore and/or protect aquatic habitats identified in the plan as in need of conservation.
- Collect basic biological data about lesser known species of concern to determine their distribution, status, and habitat needs so we can undertake activities that would preclude the need to list additional species under the ESA.

Milestones:

- November 2006– Request that FWP staff and partners identify and submit proposed ideas for projects to the technical committee
- January 2007– May 2007 - Principle staff incorporates projects into bundles, balance target allocations and seeks approval from steering committee for projects

- June 2007 – Submission of federal aid documentation
- Post June 2007 – Project implementation
- August 2007 – Begin process again with request for proposals

FTE: A combination of existing staff, contracts and modified FTE will complete the work.

Funding: Fifty percent of funding will be provided from federal funding through the State Wildlife Grant Program and the required match will be 17 percent general license revenues, 21 percent general fund, and 12 percent private sources.

Obstacles: The CFWCS evaluated the needs of over 600 vertebrate species in multiple habitat types across the state. The list of actions needed to conserve all these species and habitat is extensive.

Risks: The CFWCS identifies the species in greatest conservation need along with their related habitats and communities. By not implementing this plan, it is possible that more species will become threatened and endangered in the future.

**LFD
ISSUE****Management of State Wildlife Grants**

There are three issues associated with this request.

- Outcomes of SWG projects from the last biennium
- Development of performance criteria
- Appropriation of general fund

Outcomes from the 2007 Biennium

The department has 15 projects currently in progress. This request is for additional projects to implement the conservation plan. The outcomes of the 2007 biennium could demonstrate the successes and challenges in this program. The legislature may wish to examine the progress towards program objectives based on current projects.

Development of performance criteria

As provided the performance measures are not specific, quantifiable or time bound as required by state law, thus limiting the ability of the legislature to formulate appropriations policy. Without such information, the legislature is unable to establish their intent for this program. At this writing the department was developing a comprehensive conservation action plan to implement the CFCWS. This action plan should be the guiding document for the State Wildlife Grant Program within the department and be used to rewrite the performance criteria.

General Fund

There is an issue of whether the general fund should be utilized for the purpose of species and habitat conservation when potential other sources of revenue exist. Other sources could include the general license account, financial participation from conservation partners or habitat funding already managed by the department. This request, if approved, would establish base budget general fund authority for the Wildlife Division.

**LFD
ISSUE
CONT.**

In summary, the legislature may wish to consider the following when deliberating on the appropriation for the state wildlife grant program:

- Examine the outcomes of SWG projects from the 2007 biennium
- Examine the CFWCS implementation plan to:
 - Strengthen program performance objectives to allow for formulation of appropriations policy and future measurement of success
 - Determine whether there is a general benefit to the state that would support using general fund for this appropriation request
 - Replace general fund with general license, or private donations

DP 514 - Wildlife Overhead Refund - The executive is requesting a technical budget adjustment to comply with the department's most recent legislative audit. If approved, the department would be able to deposit and expend federal grant revenues for department indirect charges from the general license account.

**LFD
COMMENT**

Please see agency issues for a full description.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	101.08	6.25	0.00	107.33	6.25	0.00	107.33	107.33
Personal Services	3,958,323	568,992	0	4,527,315	587,549	0	4,545,872	9,073,187
Operating Expenses	2,482,606	261,742	0	2,744,348	268,167	0	2,750,773	5,495,121
Equipment	269,224	6,500	0	275,724	6,500	0	275,724	551,448
Grants	470,024	0	0	470,024	0	0	470,024	940,048
Transfers	0	0	0	0	0	0	0	0
Total Costs	\$7,180,177	\$837,234	\$0	\$8,017,411	\$862,216	\$0	\$8,042,393	\$16,059,804
State/Other Special	6,848,900	777,234	117,317	7,743,451	802,216	117,317	7,768,433	15,511,884
Federal Special	331,277	60,000	(117,317)	273,960	60,000	(117,317)	273,960	547,920
Total Funds	\$7,180,177	\$837,234	\$0	\$8,017,411	\$862,216	\$0	\$8,042,393	\$16,059,804

Program Description

The Parks Division is responsible for conserving the scenic, historic, archaeological, scientific, and recreational resources of the state, and for providing for their use and enjoyment. The program includes 50 parks, 13 affiliated lands such as rifle ranges and recreation sites managed by local and federal agencies, and 320 fishing access sites. Other programs administered by the division include motorized and non-motorized trail grants and local government recreation grants.

Program Highlights

Parks Division	
Major Program Highlights	
♦	The majority of the budget requests are for parks maintenance and operations.
♦	The budget includes funding for an additional 6.25 FTE <ul style="list-style-type: none"> • 1.5 FTE for cultural and historic resources • 4.75 FTE for operations and maintenance positions
Major LFD Issues	
♦	Operations and maintenance costs on parks and fishing access sites will continue to rise with utilization and new acquisitions

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Parks Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 6,848,900	95.4%	\$ 7,743,451	96.6%	\$ 7,768,433	96.6%
02213 Off Highway Vehicle Gas Tax	41,772	0.6%	41,772	0.5%	41,772	0.5%
02239 Off Hwy Vehicle Acct (Parks)	28,555	0.4%	28,555	0.4%	28,555	0.4%
02331 Motorboat Certification-Parks	19,559	0.3%	19,559	0.2%	19,559	0.2%
02332 Snowmobile Registration-Parks	95,151	1.3%	174,979	2.2%	174,979	2.2%
02333 Fishing Access Site Maint	166,341	2.3%	222,888	2.8%	223,012	2.8%
02407 Snowmobile Fuel Tax	706,988	9.8%	633,500	7.9%	633,500	7.9%
02408 Coal Tax Trust Account	725,186	10.1%	1,036,202	12.9%	1,036,651	12.9%
02409 General License	983,499	13.7%	983,499	12.3%	983,499	12.2%
02411 State Parks Miscellaneous	2,971,227	41.4%	3,349,875	41.8%	3,374,284	42.0%
02412 Motorboat Fuel Tax	920,549	12.8%	1,020,549	12.7%	1,020,549	12.7%
02558 Fas - Vehicle Registration	190,073	2.6%	232,073	2.9%	232,073	2.9%
03000 Total Federal Special Funds	331,277	4.6%	273,960	3.4%	273,960	3.4%
03097 Fedl Fish(W/B) Wildlife(P/R)	213,960	3.0%	213,960	2.7%	213,960	2.7%
03403 Misc. Federal Funds	-	-	60,000	0.7%	60,000	0.7%
03404 Overhead	117,317	1.6%	-	-	-	-
Grand Total	<u>\$ 7,180,177</u>	<u>100.0%</u>	<u>\$ 8,017,411</u>	<u>100.0%</u>	<u>\$ 8,042,393</u>	<u>100.0%</u>

The largest revenue source is the \$4.00 registration fee per vehicle charged in lieu of resident day use fees at state park sites, followed by motorboat fuel taxes, parks coal tax trust earnings, the general license account, snowmobile fuel taxes, fishing access maintenance and acquisition fee revenues, snowmobile registration fees, and off-highway vehicle registration fees.

The registration fee is allocated as follows:

- o \$3.50 for park operations and maintenance
- o \$0.25 for fishing access site maintenance
- o \$0.25 for support of Virginia City and Nevada City (these funds are transferred to the Heritage Commission)

The fee provides approximately \$2.9 million per year for the state parks system, \$250,000 for fishing access sites, and \$250,000 for the Virginia and Nevada City. The revenue source is stable at this time.

The division receives the following allocations of the gasoline dealer's license taxes:

- o Nine-tenths of one percent for maintenance of parks with motorboat use
- o One-eighth of one percent for off-highway vehicle safety, repair of off-highway vehicle damage, and facility development
- o Fifteen-twenty-eighths of one percent for snowmobile safety, facility development, enforcement and control of noxious weeds.

Of the coal severance tax revenues, 1.27 percent is deposited into a non-expendable trust, with the interest from the trust allocated for maintenance at state parks and historic sites.

The general license account and earmarked fishing fees are used to maintain fishing access sites.

Federal funding sources include Wallop-Breaux, National Recreational Trails, the Land and Water Conservation fund, and miscellaneous federal revenues. These federal funding sources require a match of 20 to 50 percent.

The department receives 6.5 percent of the accommodation tax collections for the maintenance of state parks. However, since the money is appropriated through statute, it is not included in HB 2.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Fiscal 2008					Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				476,679					495,739
Vacancy Savings				(177,400)					(178,162)
Inflation/Deflation				96,869					103,363
Fixed Costs				(1,722)					(1,722)
Total Statewide Present Law Adjustments				\$394,426					\$419,218
DP 603 - Land & Water Conservation Fund									
0.00	0	68,508	0	68,508	0.00	0	68,508	0	68,508
DP 604 - Snowmobile Equipment BIEN									
0.00	0	6,500	0	6,500	0.00	0	6,500	0	6,500
DP 605 - Community Service									
0.00	0	37,819	0	37,819	0.00	0	37,819	0	37,819
DP 606 - FAS Maintenance & Operations									
3.00	0	98,547	0	98,547	3.00	0	98,671	0	98,671
DP 607 - Parks Operations & Maintenance									
1.75	0	95,820	0	95,820	1.75	0	95,886	0	95,886
DP 608 - Cultural & Historic Resource Staff									
1.50	0	75,614	0	75,614	1.50	0	75,614	0	75,614
DP 611 - Parks Legislative Contract Authority OTO									
0.00	0	0	60,000	60,000	0.00	0	0	60,000	60,000
Total Other Present Law Adjustments									
6.25	\$0	\$382,808	\$60,000	\$442,808	6.25	\$0	\$382,998	\$60,000	\$442,998
Grand Total All Present Law Adjustments				\$837,234					\$862,216

LFD COMMENT

A major component driving the biennial personal services adjustment includes about \$167,000 for non-legislative pay adjustments. The remainder is to annualize the pay plan approved by the 2005 Legislature, longevity adjustments and increases to employer paid health insurance premiums. The non-legislative pay increases were market adjustments directed toward park managers and maintenance staff.

DP 603 - Land & Water Conservation Fund – The executive is requesting a base adjustment of state special authority to administer the Land and Water Community Grants Program. The land and water conservation fund passes federal monies to local communities through the Parks Division budget to build ball fields, parks, playgrounds and trails. Program administration includes processing grant applications guidance, grant tracking, record keeping, completed project review, and site inspections.

DP 604 - Snowmobile Equipment BIEN - The executive requests \$6,500 each year of the biennium to increase the base authority to \$370,000 in order to purchase snowmobile trail grooming equipment. Groomers are scheduled for replacement at West Yellowstone, Anaconda, Eureka, and Seeley Lake. These groomers are operated by local snowmobile clubs to maintain winter recreation access to public lands.

DP 605 - Community Service - The division created 1.22 modified FTE in FY 2006 to provide supervision to the Montana Conservation Corps, volunteer groups, and Aspen Youth Alternative crews. Volunteer and youth groups are used to complete special projects in place of regular maintenance crews and park staff. These park projects involve cave cleaning at Lewis and Clark Caverns, park cleanup day at Bannack, trail maintenance at Makoshika, and other projects. The executive is requesting the restoration of authority as the expenditures were for modified level FTEs, and were not reflected in the division's base budget.

**LFD
ISSUE****Personal Services**

The department routinely asks for and receives this adjustment. The legislature may wish to consider providing 1.22 FTE for inclusion in the base budget with this funding. As written, the department is provided authority for operations costs which are later moved to personal services to provide funding for the FTE.

DP 606 - FAS Maintenance & Operations - The executive requests funding for 3.00 FTE to maintain and manage fishing access sites (FAS) statewide. The additional support is requested to provide repair and maintenance, site clean-up, litter pickup, vandalism repair, toilet pumping, weed and dust control, road repair, and hazard tree removal.

**LFD
ISSUE****Fund Adequacy**

This proposal is funded with revenue from the \$0.25 vehicle registration fee (fund 02558) and earmarks from the general fishing license account (fund 02333) both for the purpose of FAS maintenance and operations. Each fund has a management issue discussed below.

The FAS vehicle registration fund (02558) is not structurally balanced. The requested annual appropriation authority exceeds the annual projected revenues by approximately \$50,000 per year. By the end of FY 2009, the fund balance is reduced to \$125,000.

Figure 11**FAS - Operations & Maintenance Fund (02333)****Projected Fund Balance**

	FY 2007	FY 2008	FY 2009
Beginning Balance	\$174,392	\$146,751	(\$122,140)
Revenues	227,135	\$223,997	\$221,776
Expenditures	(254,776)	(492,888)	(223,012)
Ending Balance	\$146,751	(\$122,140)	(\$123,376)

Requested appropriations from the FAS operations & maintenance (O&M) fund (02333) exceed the estimated projected revenues and eliminate the fund balance. Figure 11 FAS O&M demonstrates the reduction to the fund balance, including capital appropriation authority. While the capital authority may be expended beyond the next biennium, it does obligate the fund balance. By the end of FY 2009 the projected fund balance is a negative \$123,376.

Figure 12 provides the detail of the new FTE and operations dollars provided to the division for the last five biennia. The large adjustment for the 2007 biennium was to adjust the base expenditures to meet the increased revenues associated with the light vehicle registration fee. The department has an additional 12 sites under development which could become active within in the next biennium. Each new site will come with a need for operations and maintenance funding. Since the two earmarked funds are not a viable source of continuing revenues, additional general license fees will need to be utilized to operate fishing access sites.

Figure 12**Legislative Increases for
Operations & Maintenance
FAS**

Biennium	FTE	Funding	Sites
2009	3.00	\$197,000	320
2007	3.00	472,000	320
2005	(0.92)	10,800	320
2003	2.00	93,000	312
2001	1.20	151,000	312
Total	8.28	\$923,800	

The legislature may wish to consider the following options to address structural balance:

- Reduce the decision package to match available annual revenue to achieve structural balance
- Work with the Long Range Building committee to reduce the capital appropriation request from the FAS O&M fund to achieve structural balance
- Switch the funding request to the general license account from FAS O&M fund (02333) to provide time for the fund balance to grow

Options to address the increasing need for operations and maintenance funding include:

- Request legislation to increase the \$4.00 fee to \$4.25 to double the annual revenue to \$500,000 per year for FAS operations and maintenance,
- Request legislation to increase the earmark for FAS operations and maintenance from the resident or non-resident fishing license
- Request legislation to establish a statutory number of fishing access to be managed and maintained by the department
- Request legislation to require the inclusion of future development, operation and management costs as requests to develop additional fishing access sites are considered by the FWP Commission and the State Land Board.
- Make no changes

DP 607 - Parks Operations & Maintenance - The executive is requesting 1.75 FTE and operations funding to address operations and maintenance issues in state parks. The additional staff would be used to hire entry level park field staff for the Tongue River Reservoir (0.65FTE), Makoshika (0.30 FTE), Smith River Corridor (0.35 FTE) and parks in southwest Montana (0.45 FTE). The request also includes \$28,000 of operational costs.

**LFD
COMMENT**

Figure 13 provides the detail of the new FTE and operations dollars provided to the division for the last five biennia. The large adjustment for the 2007 biennium was to adjust the base expenditures to meet the increased revenues associated with the light vehicle registration fee. That revenue source provided \$2.8 million in FY 2006 of the \$4.3 million in revenue to the state parks fund.

The state parks fund is stable. However, given the Governor's initiative to expand the state park system, operations and maintenance costs will rise accordingly. Please see agency issues for the general discussion on parks management and the potential legislative options.

Figure 13
Legislative Increases for
Operations & Maintenance
State Parks

Biennium	FTE	Funding	Sites
2009	1.75	\$190,000	50
2007	2.50	1,800,000	42
2005	0.00	0	41
2003	2.79	165,000	41
2001	0.75	39,000	41
Total	7.79	\$2,194,000	

DP 608 - Cultural & Historic Resource Staff - The executive requests 1.50 FTE to improve management and operations of heritage resources and cultural parks. 1.0 FTE would be used to hire a full time heritage coordinator to help with issues of collection management, curation, archaeological sensitivity, and providing direct support to park field staff. Additionally, a full time summer park ranger (0.50 FTE) would be hired for Rosebud Battlefield State Park to provide more maintenance and protection of this historic site. An additional \$5,000 is for operations support to cover daily expenses associated with these two positions.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: To properly manage resources significant to Montana's heritage, expertise in management of historic property is needed.

Goals:

- The heritage resource coordinator will provide support to field level staff managing and caring for archaeological, palentological, historic and cultural sites in the division.
- The full time summer (May 1 through September 30) ranger will provide staff at Rosebud Battlefield State Park will maintain facilities, assist visitors, protect resources, work with adjacent landowners and implement the management plan.

Performance Criteria: Specific performance criteria have yet to be established for these two positions; however, anticipated performance criteria may include:

Heritage Resource Coordinator:

- Within 3 months of hire date, the heritage resource coordinator will have visited each heritage park and be aware of the significant resources and issues at each respective site.
- Within 4 months of hire, a prioritized list of heritage resource issues will be established by park management along with estimated costs and tools needed to resolve those including items such as planning documents, policies, stabilization, curation, and training needs.
- If not already existent, within 3 months of hire a professional rapport and working relationship will be established with the Montana Historical Society staff and the Heritage Commission staff working in similar capacities.

Rosebud Battlefield Park Ranger

- Within first year of hire, successfully complete ex-officio training.
- Within 3 months of hire, meet and talk with each of the adjacent landowners to the park and understand their concerns.
- Have no workplace related accidents and receive zero complaints about unclean facilities during the summer season.
- Provide interpretive talks to at least 25 groups over the summer season.
- Complete weed mapping for the entire park in the first summer season.
- Understand where and what cultural resources exist at the park within the first season.
- Help implement the management plan as an ongoing task.

Milestones: The seasonal ranger could be recruited and filled by July 15. The heritage resource coordinator position will take longer to recruit and hire. Tentative milestones for this position might include:

April 2007	Allocate new FTE for FY'08.
May 2007	Complete position descriptions for new positions and have them classified by Human Resources.
August 1 2007	Position recruitment & selection closes.
September 2007	Proposed start date.
March 2008	Probationary performance review, monitoring of performance criteria.

FTE: The seasonal ranger would directly perform work under supervision of the park manager at Tongue River Reservoir.

The heritage resource coordinator position would be a lead worker who will perform tasks such as policy development and guidance provision. Related work will also be directly completed by field staff, consultants, and contractors including work such as artifact protection, building stabilization, and plan preparation.

Funding: The funding for these positions comes from parks earned revenue, a state special revenue source. This is the correct funding source as it comes from vehicle registration fees for the operation and management of state parks.

Obstacles: There are challenges to each position type being hired as follows:

The heritage resource coordinator may face challenges as they will be initiating a new program focus. This may take longer to achieve than currently estimated. It may also be difficult to recruit someone with the expertise needed.

Hiring entry-level ranger staff for Rosebud battlefield, like many of the division's remote workstations, is difficult. The work requires knowledge of many different areas including maintenance and custodial duties, equipment operation, interpretation, fee collection, regulation compliance, and other tasks. Salary is relatively low in comparison to wages in this area and hours are long. We may address this obstacle by offering a pay exception or by combining this FTE with other FTE in the division to extend the period of work. Seasonal bunkhouse facilities can also be provided to make the job more attractive.

Risks: If this request is not approved, the division will continue to operate in the existing manner with no recognized professional staff and less stewardship to the significant historic resources it manages. Currently, the division could easily be criticized for not caring for Montana's heritage adequately.

**LFD
COMMENT**

The department has provided clear intent for the implementation of this decision package. The legislature may wish to strengthen the package by:

- Including performance criteria related to long term program development, such as:
- Development of policies and procedures to protect cultural and historic resources
- Provision of a specific amount of training to department staff regarding management of historic resources

DP 611 - Parks Legislative Contract Authority OTO - The executive is requesting \$60,000 per fiscal year in short-term contract authority for projects using federal funding.

**LFD
ISSUE**

Given the low amount of authority requested, the legislature may wish to disapprove this package, which would require the department to use the budget amendment process. Please see agency issues for a full description of Legislative Contract Authority.

New Proposals

New Proposals		Fiscal 2008				Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 610 - Parks Overhead Refund										
06	0.00	0	117,317	(117,317)	0	0.00	0	117,317	(117,317)	0
Total	0.00	\$0	\$117,317	(\$117,317)	\$0	0.00	\$0	\$117,317	(\$117,317)	\$0

DP 610 - Parks Overhead Refund - The executive is requesting a technical budget adjustment to comply with the department's most recent legislative audit. If approved, the department would be able to deposit and expend federal grant revenues for department indirect charges from the coal tax fund.

**LFD
COMMENT**

Please see agency issues for a full description.

Proprietary Rates**Proprietary Program Description****Enterprise Fund**

23-1-105 (5), MCA, authorizes the Parks Division of Montana Fish, Wildlife and Parks to establish an Enterprise Fund (fund 06068) for the purpose of managing state park visitor services revenue.

The fund is used by the department to provide inventory through purchase, production, or donation and for the sale of educational, commemorative, and interpretive merchandise and other related goods and services at department sites and facilities.

The fund was established primarily to better manage parks visitor centers that sell goods at parks such as Ulm Pishkum, Makoshika and Chief Plenty Coups as well as parks that sell items like firewood. Monies generated go back into the

purchase of inventory and the improvement of visitor services in state parks.

In FY 2006 this fund accounted for the following monies: \$98,473 of earned revenue, \$52,755 of expenditures, and a fund balance in the amount of \$193,647.

2009 Biennium Report on Internal Service and Enterprise Funds								
Fund	Fund Name	Agency #	Agency Name	Program Name				
6068	MFWP Visitor Services	5201	Fish Wildlife & Parks	Parks Division				
			Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:								
Fee revenue								
Goods For Resale			74,858	100,299	94,704	80,000	95,000	95,000
Net Fee Revenue			74,858	100,299	94,704	80,000	95,000	95,000
Investment Earnings			360	1,517	3,704	-	-	-
Securities Lending Income			-	-	65	-	-	-
Premiums			-	-	-	-	-	-
Other Operating Revenues			-	-	-	-	-	-
Total Operating Revenue			75,218	101,816	98,473	80,000	95,000	95,000
Operating Expenses:								
Personal Services			-	-	-	-	-	-
Other Operating Expenses			(7,076)	62,104	52,755	80,222	94,591	94,636
Total Operating Expenses			(7,076)	62,104	52,755	80,222	94,591	94,636
Operating Income (Loss)			82,294	39,712	45,718	(222)	409	364
Nonoperating Revenues (Expenses):								
Gain (Loss) Sale of Fixed Assets			-	-	-	-	-	-
Federal Indirect Cost Recoveries			-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)			-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)			-	-	-	-	-	-
Income (Loss) Before Operating Transfers			82,294	39,712	45,718	(222)	409	364
Contributed Capital			-	-	-	-	-	-
Operating Transfers In (Note 13)			-	-	-	-	-	-
Operating Transfers Out (Note 13)			-	-	-	-	-	-
Change in net assets			82,294	39,712	45,718	(222)	409	364
Total Net Assets- July 1 - As Restated			25,743	108,037	147,749	193,467	193,245	193,654
Prior Period Adjustments			-	-	-	-	-	-
Cumulative effect of account change			-	-	-	-	-	-
Total Net Assets - July 1 - As Restated			25,743	108,037	147,749	193,467	193,245	193,654
Net Assets- June 30			108,037	147,749	193,467	193,245	193,654	194,018
60 days of expenses								
(Total Operating Expenses divided by 6)			(1,179)	10,351	8,793	13,370	15,765	15,773
Requested Rates for Enterprise Funds								
Fee/Rate Information								
			Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Fee Group A			-	-	-	-	-	-
Goods for resale			-	-	-	-	-	-
Revenues are generated by the sales of merchandise at park visitor centers and regional offices. The expenses associated with the enterprise fund include office supplies, merchandising materials and the purchase of inventory to replenish stock. The Enterprise fund applies a markup rate of no less than 40% on goods purchased for resale to ensure sufficient revenues to replenish stock.								

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	28.55	0.00	0.00	28.55	0.00	0.00	28.55	28.55
Personal Services	1,502,995	134,003	0	1,636,998	139,748	0	1,642,743	3,279,741
Operating Expenses	1,407,958	68,832	0	1,476,790	123,871	0	1,531,829	3,008,619
Equipment	5,000	0	0	5,000	0	0	5,000	10,000
Grants	135,688	(12,570)	0	123,118	(12,570)	0	123,118	246,236
Total Costs	\$3,051,641	\$190,265	\$0	\$3,241,906	\$251,049	\$0	\$3,302,690	\$6,544,596
State/Other Special	2,197,805	190,265	134,406	2,522,476	251,049	134,406	2,583,260	5,105,736
Federal Special	853,836	0	(134,406)	719,430	0	(134,406)	719,430	1,438,860
Total Funds	\$3,051,641	\$190,265	\$0	\$3,241,906	\$251,049	\$0	\$3,302,690	\$6,544,596

Program Description

The Communication and Education Division coordinates the department's information and education programs as well as the department's planning efforts. This coordination includes the distribution of public information through news releases; audio-visual materials; brochures and public services announcements; production of hunting, fishing and trapping regulations; and the coordination of hunter, bow-hunter, snowmobile, boat, off-highway vehicle, and youth education and safety programs. The management of the Wildlife Center is included in this division. The division also facilitates the department's strategic planning process.

Program Highlights

Communication & Education Division	
Major Program Highlights	
♦	The division is seeking base adjustments for operation of the education component of the Wildlife Center
♦	Additional increases are for off-highway vehicle training
♦	The remaining increase is due to statewide adjustments
Major LFD Issues	
♦	The appropriation for the Wildlife Center may not be needed as adequate funds to build the center have not been raised

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Communication And Educat						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 2,197,805	72.0%	\$ 2,522,476	77.8%	\$ 2,583,260	78.2%
02238 Off-Hwy Vehicle Acct (Coned)	-	-	5,000	0.2%	5,000	0.2%
02328 Ohv Gas Tax - Con Ed	12,076	0.4%	12,076	0.4%	12,076	0.4%
02330 Snowmobile Fuel Tax-Con Ed	60,468	2.0%	60,468	1.9%	60,468	1.8%
02408 Coal Tax Trust Account	69,403	2.3%	69,403	2.1%	69,403	2.1%
02409 General License	2,055,858	67.4%	2,375,529	73.3%	2,436,313	73.8%
03000 Total Federal Special Funds	853,836	28.0%	719,430	22.2%	719,430	21.8%
03097 Fedl Fish(W/B) Wildlife(P/R)	686,768	22.5%	686,768	21.2%	686,768	20.8%
03403 Misc. Federal Funds	32,662	1.1%	32,662	1.0%	32,662	1.0%
03404 Overhead	134,406	4.4%	-	-	-	-
Grand Total	<u>\$3,051,641</u>	<u>100.0%</u>	<u>\$3,241,906</u>	<u>100.0%</u>	<u>\$3,302,690</u>	<u>100.0%</u>

The largest funding source in the Communication and Education Division is the general license account. Other state special revenue sources are interest from the coal tax trust account, and snowmobile and off-highway fuel taxes. Fuel taxes are dedicated revenue sources for snowmobile and off highway vehicle education programs. Federal funds are primarily Pittman-Robertson and Wallop-Breaux funds derived from federal excise taxes on sporting rifles, ammunition, and fishing equipment, and require a 25 percent match in non-federal funds.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
Fiscal 2008					Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				202,212					208,193
Vacancy Savings				(68,209)					(68,445)
Inflation/Deflation				35,456					38,967
Fixed Costs				(884)					(884)
Total Statewide Present Law Adjustments				\$168,575					\$177,831
DP 802 - Shooting Range Grants Biennial									
0.00	0	(9,074)	0	(9,074)	0.00	0	(9,074)	0	(9,074)
DP 803 - The Wildlife Education Center RST									
0.00	0	25,764	0	25,764	0.00	0	77,292	0	77,292
DP 804 - Off Highway Vehicle Education									
0.00	0	5,000	0	5,000	0.00	0	5,000	0	5,000
Total Other Present Law Adjustments									
0.00	\$0	\$21,690	\$0	\$21,690	0.00	\$0	\$73,218	\$0	\$73,218
Grand Total All Present Law Adjustments				\$190,265					\$251,049

LFD COMMENT

All but about \$22,000 of the biennial net personal services adjustment of \$273,571 is to annualize the pay plan approved by the 2005 Legislature, and provide longevity adjustments and increases to employer paid health insurance premiums. The remainder is for non-legislative pay increases for market adjustments.

DP 802 - Shooting Range Grants Biennial - FWP has administered a shooting range grants program for the last 18 years. Biennial funding authority has varied between \$120,000 and \$320,000. The executive requests to continue the above program at \$166,236 for the biennium, which requires a reduction to base authority. This is a biennial appropriation request.

DP 803 - The Wildlife Education Center RST - The executive is requesting a base adjustment to the education component of the Montana Wildlife Center located at Spring Meadow Lake State Park, Helena. Work will include staffing and daily operations of an education center located in the historic Stedman Foundry complex. FWP and private foundation partners are presently raising funds to build the center.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity

Justification: The center will serve as a destination site for school groups to learn about our wildlife heritage, a place where educators can enhance their knowledge about natural systems and conservation issues, and a place for families to fish and recreate as Spring Meadow Lake state park currently attracts 80,000 visitors annually.

Goals: The goal is to offer the public opportunities to learn about wildlife and the natural world in a community facility specifically designed for conservation education.

Performance Criteria:

- Enhance the knowledge and understanding of teachers, students, families, and community groups by providing a wide spectrum of scientific based learning opportunities and information about Montana's wildlife heritage.
- Educate the public about how to "live with wildlife" and understand the need for management and stewardship of our wildlife resources
 - Document the number of users through visitor counts/program requests/hits on the web site
 - Assess knowledge levels of visitors using electronic interactive pre & post- evaluations
 - Correlate school group activities to the Montana Standards for Science and will include assessment tools for teachers to evaluate student performance

Milestones:

If fundraising is successful, we would anticipate the following timeline:

July- December 2007	Prepare construction documents (6 months)
January – February 2008	Bid opening (2 months)
March – December 2008	Construction (6 months to a year)
January – July 2009	Exhibit construction (6 months)

FTE: FTE for the Wildlife Center was approved by the 2005 Legislature. The 1.16 FTE includes 0.26 FTE that is part of a position that oversees the existing wildlife rehabilitation facility. The remaining 0.90 FTE continues to be vacant as promised pending completion of the education center.

Funding: General license dollars will fund the daily operations of the Wildlife Center at the same level approved by the 2005 Legislature. This compliments the \$2.6 million of private authority that FWP received from the 2003 Legislature for construction of the education center.

Obstacles: Raising private dollars to complete the building construction and interpretive display costs.

Risk: No action would allow facility construction but no resources for staffing and operations.

**LFD
ISSUE****Capital Funds Have Not Been Raised**

The legislature may wish to consider the progress of fundraising efforts in relation to this decision package. The 2005 Legislature approved a similar package to provide limited FTE and support to the center as the department raised funds for the construction of the center. To date, the department has raised \$50,000 of the \$2.0 million needed.

During FY 2006, the department expended approximately \$66,000 for personal services and operations. Statewide adjustments, if approved, will fully restore personal services costs for the 1.16 FTE and increased utility costs for the center. The inflation/deflation factors have provided for a 31 percent annual increase in natural gas costs and at least 5.2 percent for electricity. If fundraising to complete the center does not progress significantly, the department may not need the base adjustment to continue operating at the same level.

The legislature may wish to:

- o Disapprove the base adjustment as the department has significant authority to continue operations at the same level
- o Approve the decision package and condition the release of the FY 2007 increased appropriation if the department has reached its fundraising goals

DP 804 - Off Highway Vehicle Education - The executive requests additional funds to increase public information and safety efforts specific to off highway vehicle use, by providing additional maps and materials on ethics, rules, regulations, and safety. It is funded with OHV dealer registration receipts.

**LFD
COMMENT**

The department has not accessed this fund until now. The fund revenues are approximately \$5,000 per year and are earmarked for OHV education and safety.

New Proposals

New Proposals										
Program	FTE	Fiscal 2008				FTE	Fiscal 2009			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 805 - Com & Ed Overhead Refund										
08	0.00	0	134,406	(134,406)	0	0.00	0	134,406	(134,406)	0
Total	0.00	\$0	\$134,406	(\$134,406)	\$0	0.00	\$0	\$134,406	(\$134,406)	\$0

DP 805 - Com & Ed Overhead Refund - The executive is requesting a technical budget adjustment to comply with the department's most recent legislative audit. If approved, the department would be able to deposit and expend federal grant revenues for department indirect charges from the general license account.

**LFD
COMMENT**

Please see agency issues for a full description

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	95.74	1.00	3.00	99.74	1.00	3.00	99.74	99.74
Personal Services	4,443,164	466,355	130,652	5,040,171	486,214	129,291	5,058,669	10,098,840
Operating Expenses	4,482,527	132,961	75,000	4,690,488	(139,116)	75,000	4,418,411	9,108,899
Equipment	40,721	0	20,000	60,721	0	20,000	60,721	121,442
Transfers	26,463	73,189	0	99,652	73,189	0	99,652	199,304
Total Costs	\$8,992,875	\$672,505	\$225,652	\$9,891,032	\$420,287	\$224,291	\$9,637,453	\$19,528,485
State/Other Special	6,734,381	615,528	2,442,426	9,792,335	380,943	2,441,065	9,556,389	19,348,724
Federal Special	2,258,494	56,977	(2,216,774)	98,697	39,344	(2,216,774)	81,064	179,761
Total Funds	\$8,992,875	\$672,505	\$225,652	\$9,891,032	\$420,287	\$224,291	\$9,637,453	\$19,528,485

Program Description

The Administration and Finance Division and the Department Management Division were reorganized into the Management and Finance Division.

The management sections of this division are responsible for overall department direction regarding policy, planning, program development, guidelines, budgets, decision-making for key resource activities, and supervision of the seven divisions. Legal services and human resources management for the department are also in this division.

The finance sections of this division provide for department-wide support for accounting; fiscal management; purchasing; and property management; federal aid administration; and the sale of hunting, fishing, and other recreational licenses.

Program Highlights

Department Management Division Major Program Highlights	
♦ Increases for the division include:	<ul style="list-style-type: none"> • Funding for citizen advisory committees • Rent for field offices • Permanent authority for a modified FTE to monitor energy development impacts on fish and wildlife
Major LFD Issues	
♦ The legislature may wish to establish performance criteria for the State Wildlife Grant Program	
♦ Seasonal overtime adjustment may not be warranted	

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Management And Finance						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 6,734,381	74.9%	\$ 9,792,335	99.0%	\$ 9,556,389	99.2%
02086 Mountain Sheep Account	11,500	0.1%	11,500	0.1%	11,500	0.1%
02112 Moose Auction	1,300	0.0%	1,300	0.0%	1,300	0.0%
02176 Mountain Goat Auction	1,350	0.0%	1,350	0.0%	1,350	0.0%
02409 General License	6,688,868	74.4%	9,673,633	97.8%	9,437,687	97.9%
02547 Search & Rescue	26,463	0.3%	99,652	1.0%	99,652	1.0%
02559 Mule Deer Auction	1,300	0.0%	1,300	0.0%	1,300	0.0%
02560 Elk Auction	3,600	0.0%	3,600	0.0%	3,600	0.0%
03000 Total Federal Special Funds	2,258,494	25.1%	98,697	1.0%	81,064	0.8%
03097 Fedl Fish(W/B) Wildlife(P/R)	41,720	0.5%	49,843	0.5%	33,710	0.3%
03404 Overhead	2,216,774	24.7%	-	-	-	-
03408 State Wildlife Grants	-	-	48,854	0.5%	47,354	0.5%
Grand Total	\$8,992,875	100.0%	\$9,891,032	100.0%	\$9,637,453	100.0%

The division provides management and financial oversight of all department activities. Because of this role the department is funded almost entirely with general license account revenues. Minimal Pittman-Robertson/Wallup-Breaux and state wildlife grants provide federal funds to the division. The large reduction in federal funds is due to an audit issue where the department was cited for not depositing and expending indirect charges covered by federal grants from the same fund. The appropriate accounting process requires the department to deposit and expend those funds from the general license account rather than the federal overhead account.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
Fiscal 2008					Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				592,344					612,972
Vacancy Savings				(201,425)					(202,245)
Inflation/Deflation				68,799					73,308
Fixed Costs				(156,601)					(262,770)
Total Statewide Present Law Adjustments				\$303,117					\$221,265
DP 901 - State Wildlife Grants & Energy Development	1.00	0	16,285	48,854	65,139	1.00	0	15,785	47,354
DP 903 - Citizen Advisory Committees	0.00	0	30,000	0	30,000	0.00	0	30,000	0
DP 904 - Area Offices Rent Increase	0.00	0	15,000	0	15,000	0.00	0	15,000	0
DP 905 - Search & Rescue Base Adjustment	0.00	0	73,189	0	73,189	0.00	0	73,189	0
DP 906 - Water Adjudication RST	0.00	0	161,060	0	161,060	0.00	0	0	0
DP 907 - Commission Expense Adjustment	0.00	0	16,000	0	16,000	0.00	0	16,000	0
DP 908 - Seasonal Overtime	0.00	0	9,000	0	9,000	0.00	0	9,000	0
DP 911 - Statute Book Printing	0.00	0	0	0	0	0.00	0	(7,306)	0
Total Other Present Law Adjustments	1.00	\$0	\$320,534	\$48,854	\$369,388	1.00	\$0	\$151,668	\$47,354
Grand Total All Present Law Adjustments				\$672,505					\$420,287

**LFD
COMMENT**

The driving component of the biennial personal services adjustment is about \$207,000 for non-legislative pay adjustments. The remainder is to annualize the pay plan approved by the 2005 Legislature, longevity adjustments, and increases to employer paid health insurance premiums. The non-legislative pay increases were market adjustments and strategic pay mostly likely due to reorganization.

DP 901 - State Wildlife Grants & Energy Development – The executive is requesting 1.0 FTE and operational funding to coordinate implementation of Montana's Comprehensive Fish and Wildlife Conservation Strategy and FWP input to energy development. Federal funding will be derived from the State Wildlife Grants (SWG) program; matching funds will be license dollars.

Justification: The positions will ensure effective use of \$2.4 million of federal and state matching funds and minimize the impacts of expanding energy development on fish and wildlife.

Goals: FWP's specific goals in creating this position are:

- To assure effective implementation of the strategy through responsible use of \$1.2 million per year in federal State Wildlife Grants and conservation partnerships
- To coordinate protection of fish, wildlife and habitat with energy development in Montana so our citizens enjoy the economic benefits of both, and maintain a high quality of life

Performance Criteria:

- Complete 5-year implementation strategy for the comprehensive fish and wildlife conservation strategy by December 31, 2007
- Develop a system to track energy development activities by September 30, 2007
- Provide quarterly updates on the status of energy development projects
- Develop mitigation strategies and/or stipulations for oil and gas development projects by March 30 2008
- Coordinate and submit FWP comments and responses to energy development proposals by proposal-specific deadlines

Milestones

- 2007: Completion of a 5 year implementation plan for the comprehensive fish and wildlife conservation strategy.
Completion of fish, wildlife and parks oil and gas development stipulations.
Completion of fish, wildlife and parks development input for the BLM supplemental environmental impact statement for coal bed natural gas.
- 2008 Completion of a fish, wildlife and parks strategy for addressing oil and gas, coal, and wind energy developments.
- 2009 Completion of fish, wildlife and parks mitigation strategies.
Secure significant funding resources to mitigate energy development related impacts to fish and wildlife resources.

FTE: The current modified FTE used for development of the comprehensive fish and wildlife conservation strategy will be replaced with a base FTE with 25 percent of duties assigned to oversight of implementation of the comprehensive fish and wildlife conservation strategy and 75 percent of duties focused on addressing energy development.

Funding: Funding will be provided by federal State Wildlife Grants (50 percent) and general license funds.

Obstacles:

Extent of Conservation Needs: The list of actions needed to conserve over 600 vertebrate and habitat is extensive.

Scope of Duties: Overseeing implementation of the strategy and addressing energy development will require extensive coordination with multiple divisions and FWP regions, as well as numerous conservation partners.

Timeline: Energy development is increasing at very high rates. Accomplishing the tasks needed to coordinate and develop agency wide strategies will require many years. This obstacle will be mitigated by: 1) prioritization of critical

tasks; and 2) a commitment from FWP to continue supporting this position and related duties with close accountability to the Director's Office.

Risks: If this proposal is not adopted, use of State Wildlife Grants and implementation of the comprehensive strategy may not be effective or efficient. Agency requirements to work with energy developers, federal and state agencies would be less coordinated, less effective, and with a slower response time.

**LFD
ISSUE****Performance Criteria**

The legislature may wish to consider altering the performance criteria to include:

- Tracking the outcomes of FWP responses to proposed energy developments to determine impacts
- A summary report of department wide SWG activities

DP 903 - Citizen Advisory Committees - All FWP regions have established citizen advisory committees (CAC) to facilitate communication between FWP and a broad cross-section of constituents within each region. The CAC's typically meet during the evenings on weekdays, or on a Saturday. There are typically 12 to 15 members on each CAC, and FWP pays their travel expenses and provides a meal at the CAC meeting. The executive requests food service and travel for the members of the regional CAC's to attend the meetings.

**LFD
COMMENT**

The CAC's serve two main functions: 1) provide the agency with a more formal basis for collecting information, ideas, and initiatives from the public; and 2) provide a collaborative environment for FWP to inform and educate key citizens with the expectation they will in turn inform and educate the broader public.

DP 904 - Area Offices Rent Increase - The executive is requesting funding to relocate the Lewistown and Havre offices. The Lewistown Area Office is located within the secure perimeter of the Lewistown Airport, which compromises both public access to the office and air traffic safety. The Havre area office lease expires in 2007 and lacks adequate space for staff and public interaction.

DP 905 - Search & Rescue Base Adjustment - The executive requests a base adjustment of \$73,189 each year of the biennium to re-establish authority to transfer cash to the Department of Military Affairs for costs incurred by search and rescue clubs when searching for hunters, anglers or trappers. The revenue source for these funds is \$0.25 for each conservation license sold.

DP 906 - Water Adjudication RST - The executive is requesting authority to pay water right adjudication fees as the department's share in the cost of completing the adjudication process. The 2005 Legislature passed HB 22 requiring holders of state water rights to pay a biennial fee to expedite the adjudication process.

**LFD
ISSUE****Potential Fee Elimination**

The legislature may wish to condition this appropriation as invalid if any of the multiple bills proposed to eliminate the water adjudication fee are passed and approved.

DP 907 - Commission Expense Adjustment - The executive is requesting authority for commission compensation for their travel at a standard per diem rate and an honorarium of \$50 per day for participation in meetings or conducting other commission business. The budget system excludes all per diem and honoraria paid to FWP commissioners and an adjustment is needed to restore this funding.

DP 908 - Seasonal Overtime - The executive is requesting authority for overtime in lieu of adding staff during peak workload periods in the areas of licensing, payroll, fiscal year end, and budget preparation.

**LFD
COMMENT**

This is a minimal amount of overtime and could be covered within the overall division personal services budget.

DP 911 - Statute Book Printing - The executive is requesting authority to print statute books to inform game wardens, other staff, and the public of relevant laws pertaining to FWP. This cost of \$7,306 during the base year is cyclic and therefore is not needed during the second year of the biennium.

New Proposals

New Proposals										
Program	FTE	Fiscal 2008				Fiscal 2009				Total Funds
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	
DP 909 - Mngmt & Finance Overhead Refund										
09	0.00	0	2,216,774	(2,216,774)	0	0.00	0	2,216,774	(2,216,774)	0
DP 915 - River Recreation Management Program										
09	3.00	0	225,652	0	225,652	3.00	0	224,291	0	224,291
Total	3.00	\$0	\$2,442,426	(\$2,216,774)	\$225,652	3.00	\$0	\$2,441,065	(\$2,216,774)	\$224,291

DP 909 - Mngmt & Finance Overhead Refund - The executive is requesting a technical budget adjustment to comply with the department's most recent legislative audit. If approved, the department would be able to deposit and expend federal grant revenues for department indirect charges from the general license account.

**LFD
COMMENT**

Please see agency issues for a full description.

DP 915 - River Recreation Management Program - In FY 2007 FWP is scheduled to implement a commercial use permit system for department lands, including fishing access sites. The public and the FWP Commission recommended that the fees from commercial use of fishing access sites be allocated to river recreation management and the fishing access site program. The executive is requesting authorization to use this new source of revenue to establish a river recreation management program in Regions 2, 3, and 4, and improve fishing access sites in these regions.

**LFD
COMMENT**

The department is anticipating annual revenues from the commercial use program of \$242,000, which would be deposited into the general license account. This decision package utilizes 93 percent of the revenue, leaving little if any growth room for subsequent biennia.

Proprietary Program Description*Duplicating Center*

The department's duplicating center provides duplicating and bindery services to department employees. The Duplicating Center has only 1.00 FTE and whenever the demand for services becomes too great or a particular job is considered too large, the excess jobs are taken to Publications & Graphics to be completed.

Proprietary Revenues and Expenses Revenues and Expenses and Fund Equity

Expenses recovered in the rates are the personal services of the 1.00 FTE, operating expenses and the raw materials needed for duplicating.

Rates have been historically adjusted based on the need to increase or decrease the cash balances in the account. Prior to requesting new rates, a review of the cash balance is done. At FYE 2006, the cash balance was (\$614).

Working Capital Discussion

The 60-day working capital requirement provides sufficient cash to fund on-going operations of this program. Field projects are billed monthly for the services provided during the month. The workload is fairly consistent so there is little fluctuation in cash balances except when additional inventory is purchased.

Fund Equity and Reserved Fund Balance

A portion of the program's fund balance has been reserved for the duplicating center's equipment and inventory. At FYE 2006 the book value of the fund's assets were \$42,730 of which \$8,929 was inventory.

Rate Explanation

The rate methodology attempts to determine a rate for various duplicating and bindery services that allow the fund to recover both the cost of the raw materials and all associated personal services and operating costs. Rates have been historically adjusted based on the need to increase or decrease the cash balance. The requested rates have been increased only to recover anticipated inflationary increases in the raw materials and administrative costs.

Proposed rates

Duplicating Services Rates

Item	FY 2008	FY 2009
<u>Copies</u>		
1-20	\$0.050	\$0.055
21-100	\$0.035	\$0.040
101-1,000	\$0.030	\$0.035
1,001-5,000	\$0.025	\$0.030
Color - per sheet	\$0.250	\$0.250
<u>Binding</u>		
Collating (per sheet)	\$0.005	\$0.005
Hand Stapling (per set)	\$0.015	\$0.015
Saddle stitch (per set)	\$0.030	\$0.030
Folding (per sheet)	\$0.005	\$0.005
Punching (per sheet)	\$0.001	\$0.001
Cutting (per minute)	\$0.550	\$0.550

LFD COMMENT

The Legislative Audit Division concluded in their financial compliance audit of two fiscal years ending June 30, 2005, that the rate for the duplicating center was not commensurate with costs. The department concurred with this finding and agreed to review internal service rates. The rate request represents a continuation of FY 2007 rates into FY 2008 and an increase in rates in FY 2009.

**LFD
COMMENT
CONT.**

The department has used a cash balance approach to evaluate resource requirements of proprietary funds. This method is easily manipulated by the timing of purchases of equipment and supplies. If a working capital evaluation is used, the net resources available to operate the center are \$42,731. The sixty day cash requirement is \$14,160. The legislature may wish to retain the current rates for the duplicating center, rather than adopt increased rates. The proposed FY 2008 rates are the same as the current rates; the FY 2009 rate provides a slight rate increase.

2009 Biennium Report on Internal Service and Enterprise Funds								
Fund	Fund Name	Agency #	Agency Name	Program Name				
06501	Duplicating Center	52010	Fish, Wildlife & Parks	Management & Finance				
			Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:								
Fee revenue								
	Revenue from Duplicating Center		95,176	90,940	65,469	90,000	110,000	110,000
	Net Fee Revenue		95,176	90,940	65,469	90,000	110,000	110,000
	Investment Earnings		-	-	-	-	-	-
	Securities Lending Income		-	-	-	-	-	-
	Premiums		-	-	-	-	-	-
	Other Operating Revenues		-	-	-	-	-	-
	Total Operating Revenue		95,176	90,940	65,469	90,000	110,000	110,000
Operating Expenses:								
	Personal Services		29,267	29,306	32,210	33,596	33,640	33,640
	Other Operating Expenses		58,674	62,529	52,750	52,317	74,561	74,630
	Total Operating Expenses		87,941	91,835	84,960	85,913	108,201	108,270
	Operating Income (Loss)		7,235	(895)	(19,491)	4,087	1,799	1,730
Nonoperating Revenues (Expenses):								
	Gain (Loss) Sale of Fixed Assets		2,400	-	-	-	-	-
	Federal Indirect Cost Recoveries		-	-	-	-	-	-
	Other Nonoperating Revenues (Expenses)		-	-	-	-	-	-
	Net Nonoperating Revenues (Expenses)		2,400	-	-	-	-	-
	Income (Loss) Before Operating Transfers		9,635	(895)	(19,491)	4,087	1,799	1,730
	Contributed Capital		-	-	-	-	-	-
	Operating Transfers In (Note 13)		-	-	-	-	-	-
	Operating Transfers Out (Note 13)		-	-	-	-	-	-
	Change in net assets		9,635	(895)	(19,491)	4,087	1,799	1,730
	Total Net Assets- July 1 - As Restated		53,482	63,117	62,222	42,731	46,818	48,617
	Prior Period Adjustments		-	-	-	-	-	-
	Cumulative effect of account change		-	-	-	-	-	-
	Total Net Assets - July 1 - As Restated		53,482	63,117	62,222	42,731	46,818	48,617
	Net Assets- June 30		63,117	62,222	42,731	46,818	48,617	50,347
	60 days of expenses							
	(Total Operating Expenses divided by 6)		14,657	15,306	14,160	14,319	18,034	18,045
Requested Rates for Internal Service Funds								
Fee/Rate Information								
			Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Duplicating (number of copies)								
	1-20		0.045	0.045	0.045	0.050	0.050	0.055
	21-100		0.030	0.030	0.030	0.035	0.035	0.040
	101-1000		0.025	0.025	0.025	0.025	0.030	0.035
	1001-5000		0.020	0.020	0.020	0.025	0.025	0.030
Color Copies								
			0.250	0.200	0.200	0.020	0.250	0.250
Bindery								
	Colating (per sheet)		0.005	0.005	0.005	0.005	0.005	0.005
	Hand stapling (per set)		0.015	0.015	0.015	0.015	0.015	0.015
	Saddle stitch (per set)		0.030	0.030	0.030	0.030	0.030	0.030
	Folding (per sheet)		0.005	0.005	0.005	0.005	0.005	0.005
	Punching (per sheet)		0.001	0.001	0.001	0.001	0.001	0.001
	Cutting (per minute)		0.550	0.550	0.550	0.550	0.550	0.550

Equipment Enterprise Fund

The department's equipment fund provides a fleet of vehicles and aircraft to department employees. The revenue users are department employees, mostly enforcement wardens, fish and wildlife biologists and park employees. Every month, users are charged for the miles driven (hours flown) during the previous month.

Revenues, Expenses and Fund Equity

The objective of the vehicle account is to recover (through rates and annual auction revenues) sufficient funds to cover administrative costs to operate the program (personal services and operations), fuel and repair costs of fleet in addition to being able to replace fleet vehicles at approximately 100,000 miles. A total of 2.56 FTE are funded in this fund. The two largest costs are fuel and repairs. In FY 2004 the fund spent over \$675,000 on fuel and \$500,000 on repairs. In FY 2006 the fund spent over \$985,000 on fuel and \$550,000 on repairs. Gasoline expenses have increased an average of 15 percent over the past four years and this rate was used to establish the budget for the next biennium. In FY 2006 the department drove just over 5.7 million miles in department vehicles. Due to the proposed rates in FY 2008 and FY 2009, the program anticipates revenues of \$3.1 million in FY 2006 and \$3.3 in FY 2007.

Working Capital Discussion

The department attempts to manage this account so that a 60-day working capital amount of cash is available when the cash balance is at its lowest level. To compensate for a cash flow problem created by increased fuel costs, rates were increased by 7 percent in FY 2006. The department is requesting an additional rate increase of 25 percent in FY 2008 and 10 percent in FY 2009 for our vehicles and 16 percent each year for our aircraft.

The department attempts to ensure that fees are commensurate with costs over time. It does this in two ways. First, proposed rates for the next biennium take into consideration any excess income or loss generated from previous periods. Second, prior to finalizing new rates at the beginning of a new fiscal year, the rates are recalculated based on actual information.

In order to maintain a positive cash balance, the vehicle fund currently has a \$300,000 loan from another fund. Working capital at FYE 2006 was (\$58,590). The department anticipates a positive working capital at the end of FY 2009.

Divisions are billed monthly for the miles driven (hours flown) during the previous month. Cash balances fluctuate during the year for two reasons. The first is that monthly mileage is greater during in the summer and fall than during the winter and spring. The second reason is that new vehicles are purchased in the spring. Thus cash balances are normally highest in December after the hunting season and lowest in the spring after purchasing the new vehicles. Fiscal year end balances tend to be significantly higher than spring balances

Fund Equity and Reserved Fund Balance

There is no requirement to reserve fund balance. At FYE 2006, the vehicle fund had total assets of \$6,665,000 and the book value (original cost less accumulated depreciation) of the fleet was \$6,198,000. The major liability is a \$300,000 loan to ensure a positive cash balance at year-end. A portion of the program's fund balance has been reserved for the book value of department vehicles and aircraft.

Rate Explanation

The rate methodology attempts to determine a cost/mile rate for various classes of vehicles and a cost/hour rate for each class of aircraft. The methodology is to determine the previous year's expenses, including operating, maintenance and administration expenses minus the previous year's revenue generated from the rates and the annual vehicle auction to establish the net cash inflow. Future year expenses are estimated based on the most current year's information plus a 3 percent inflationary factor and a 15 percent inflationary factor for fuel. Using the most current year's mileage and the projected expenses, a cost/mile (hour) rate is determined for the future years. The goal is to have a cash balance at fiscal year end equal to 60 days of total operating expenses. Due to the current cash balance and the increased fuel costs, the department proposes increased vehicle rates of 25 percent in FY08 and 10 percent in FY09 and a proposed aircraft rate increase 16 percent each year of the biennium.

In addition, in order to more fairly charge users, a minimum mileage rate was instigated in FY 2000. This was an attempt to recover overhead costs whether a vehicle is driven or not. A minimum monthly overhead charge would be

assessed to each vehicle that is not driven a minimum number of miles. By using this method, the overhead costs are recovered and low mileage vehicles are not being subsidized by higher mileage vehicles.

Rates

Department of Fish, Wildlife & Parks

Vehicle and Aircraft Rates

Fiscal Years 2008 and 2009

Description	FY 2008	FY 2009
<u>Per Mile Rates</u>		
Sedans	\$0.38	\$0.40
Vans	\$0.41	\$0.43
Utilities	\$0.46	\$0.50
Pickup 1/2 Ton	\$0.38	\$0.40
Pickup 3/4 Ton	\$0.46	\$0.51

Per Hour Rates

2 Place Single Engine	\$ 75.05	\$ 90.06
Partnavia	\$357.34	\$428.80
Turbine Helicopters	\$417.46	\$480.08

Vehicles will be assessed a minimum overhead charge in addition to the regular rates if not driven a minimum number of miles.

Significant Present Law Adjustments

Each year, department employees drive over 5.7 million miles in department owned vehicles. The department currently has a fleet of over 450 vehicles, which are mainly used by enforcement officers, fish and wildlife biologists and parks employees. The department's request for vehicle replacement is for 45 vehicles in both FY 2008 and FY 2009. This is based on replacing vehicles after a minimum of 100,000 miles. This replacement schedule does not require a present law adjustment.

Adjustments to the Base Rate

During the past four years, fuel expenses have increased an average of 15 percent per year. We anticipate this trend to continue through FY09. In FY 2006, the fund spent \$933,000 on vehicle fuel and \$55,000 on aircraft fuel. In order to purchase fuel at the projected inflated rates, the department is requesting a base adjustment of \$300,863 in FY 2008 and \$485,928 in FY 2009 for vehicle fuel and \$17,810 in FY08 and \$28,766 in FY 2009 for aircraft fuel.

LFD ISSUE

Fund Stability

The increase may not be warranted based on fuel costs. The department has experienced a 12 percent increase in gasoline expenditures from this fund between FY 2004 and FY 2006. Gasoline costs have since stabilized. However, during FY 2004, 2005 and 2006 the fund has required cash loans to maintain an adequate cash flow. The same may hold true for FY 2007. The requested increase may provide enough cash maintain an adequate fund balance throughout the year. The legislature may wish to address this issue in detail with the department.

2009 Biennium Report on Internal Service and Enterprise Funds								
Fund 06502	Fund Name Vehicle Fund	Agency # 52010	Agency Name Fish, Wildlife & Parks	Program Name Management & Finance				
			Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:								
Fee revenue								
	Revenue from vehicle fees		2,210,440	2,222,828	2,324,827	2,500,000	2,696,000	2,650,000
	Revenue from aircraft fees		-	-	-	-	304,000	350,000
	Net Fee Revenue		2,210,440	2,222,828	2,324,827	2,500,000	3,000,000	3,000,000
	Investment Earnings		-	-	-	-	-	-
	Securities Lending Income		-	-	-	-	-	-
	Premiums		-	-	-	-	-	-
	Other Operating Revenues		4	7,892	-	-	-	-
	Total Operating Revenue		2,210,444	2,230,720	2,324,827	2,500,000	3,000,000	3,000,000
Operating Expenses:								
	Personal Services		74,824	95,638	89,945	136,703	77,524	77,600
	Other Operating Expenses		1,948,846	2,099,808	2,230,306	2,351,728	2,917,368	3,092,298
	Total Operating Expenses		2,023,670	2,195,446	2,320,251	2,488,431	2,994,892	3,169,898
	Operating Income (Loss)		186,774	35,274	4,576	11,569	5,108	(169,898)
Nonoperating Revenues (Expenses):								
	Gain (Loss) Sale of Fixed Assets		(108,268)	(297,310)	(424,817)	(150,000)	(125,000)	(100,000)
	Federal Indirect Cost Recoveries		-	-	-	-	-	-
	Other Nonoperating Revenues (Expenses)		-	-	-	-	-	-
	Net Nonoperating Revenues (Expenses)		(108,268)	(297,310)	(424,817)	(150,000)	(125,000)	(100,000)
	Income (Loss) Before Operating Transfers		78,506	(262,036)	(420,241)	(138,431)	(119,892)	(269,898)
	Contributed Capital		-	-	-	-	-	-
	Operating Transfers In (Note 13)		65,718	158,982	109,316	120,000	110,000	110,000
	Operating Transfers Out (Note 13)		-	-	-	-	-	-
	Change in net assets		144,224	(103,054)	(310,925)	(18,431)	(9,892)	(159,898)
	Total Net Assets- July 1 - As Restated		6,451,333	6,594,648	6,491,594	6,180,669	6,162,238	6,152,346
	Prior Period Adjustments		(909)	-	-	-	-	-
	Cumulative effect of account change		-	-	-	-	-	-
	Total Net Assets - July 1 - As Restated		6,450,424	6,594,648	6,491,594	6,180,669	6,162,238	6,152,346
	Net Assets- June 30		6,594,648	6,491,594	6,180,669	6,162,238	6,152,346	5,992,448
60 days of expenses								
	(Total Operating Expenses divided by 6)		337,278	365,908	386,709	414,739	499,149	528,316
Requested Rates for Internal Service Funds								
Fee/Rate Information								
			Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Revenue from vehicle fees								
	Sedans (per mile)		0.28	0.31	0.30	0.30	0.38	0.40
	Vans (per mile)		0.29	0.32	0.33	0.33	0.41	0.43
	Utilities (per mile)		0.36	0.38	0.37	0.37	0.46	0.50
	Pickups - 1/2 ton (per mile)		0.35	0.36	0.32	0.32	0.38	0.40
	Pickups - 3/4 ton (per mile)		0.35	0.36	0.37	0.37	0.46	0.51
Revenue from aircraft fees								
	Two place - single engine (per hour)		56.72	56.72	59.56	62.54	75.05	90.08
	Partnavia (per hour)		283.60	297.78	297.78	297.78	357.34	428.80
	Turbine helicopters (per hour)		345.72	345.72	363.01	363.01	417.46	480.08
Vehicles will be assessed an additional minimum mileage charge if not driven a minimum number of miles in a month.								
NOTE: This table is being presented under program 9 since the majority of the expenditures are recorded under it. Program 2 Field Services records expenditures for aircraft activity. Program 9 Management & Finance records revenue for both the aircraft and vehicle activity as well as the expenditures for vehicle activity.								

Warehouse Inventory

The department's warehouse contains mainly uniform items (both for wardens and non-wardens) and items specifically related to the duties of the department such as gill nets for the fisheries biologists. Overhead costs are recovered by charging a predetermined fixed percentage to all sales.

Revenues and Expenses

The expenses associated with the warehouse include personal services, miscellaneous office supplies and expenses for the warehouse worker and inventory purchased needed to replenish existing stock. Revenues are the sales of inventory items to department employees. The department anticipates revenues to be constant at around \$90,000 per year for FY 2008 and FY 2009. The department is requesting an increase in FTE for the warehouse from .20 FTE to .50 FTE.

Working Capital Discussion

The 60-day working capital requirement provides sufficient cash to fund on-going operations of this program. The department attempts to ensure that fees are commensurate with costs over time by adjusting the proposed rates for excess income or loss from previous periods.

Field projects are billed monthly for the purchases made during the month. Cash balances fluctuate during the year. Cash balances are lowest during the winter when stock is replenished and highest during the summer when temporary and seasonal employees are hired. Cash balance at FYE 2006 was \$48,500.

Fund Equity and Reserved Fund Balance

A portion of the program's fund balance has been reserved for the warehouse inventory. At FYE 2006, the warehouse inventory was approximately \$100,500.

Rate Explanation

The rate requested for the warehouse is an overhead rate that is added to the cost of the inventory items. The overhead rate will generate sufficient revenue to cover the administrative costs of the program. The current overhead rate of 5 percent is requested for the 2009 biennium. The rate is calculated by estimating the support costs required to maintain the warehouse function such as personal services, office supplies and other miscellaneous office costs. Based on estimated warehouse sales, a fixed overhead percentage is determined that allows the department to recover the warehouse support costs. This rate is also adjusted for any previous over or under collections.

**LFD
COMMENT**

The Legislative Audit Division concluded in FWP's financial compliance audit of two fiscal years ending June 30, 2005, that the rate for the warehouse was not commensurate with costs. The department concurred with this finding and agreed to review internal service rates. A continuation of the same rate is being sought.

The department has used a cash balance approach to evaluate resource requirements of proprietary funds. This method is easily manipulated by the timing of purchases of equipment and supplies. If a working capital evaluation is used, the net resources available to operate the center are \$162,495. The sixty day cash requirement is \$22,599. The legislature may wish to reduce the rate for the warehouse to reduce the amount of excess working capital.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06503	Warehouse Inventory	52010	Fish, Wildlife & Parks	Management & Finance

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Revenue from warehouse sales	103,141	91,960	99,246	80,000	80,000	80,000
Net Fee Revenue	103,141	91,960	99,246	80,000	80,000	80,000
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	2	-	-	-	-
Total Operating Revenue	103,141	91,962	99,246	80,000	80,000	80,000
Operating Expenses:						
Personal Services	4,692	5,233	18,610	20,779	15,165	15,310
Other Operating Expenses	71,835	94,055	116,984	73,287	120,505	120,531
Total Operating Expenses	76,527	99,288	135,594	94,066	135,670	135,841
Operating Income (Loss)	26,614	(7,326)	(36,348)	(14,066)	(55,670)	(55,841)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(18,566)	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(18,566)	-	-	-	-	-
Income (Loss) Before Operating Transfers	8,048	(7,326)	(36,348)	(14,066)	(55,670)	(55,841)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	8,048	(7,326)	(36,348)	(14,066)	(55,670)	(55,841)
Total Net Assets- July 1 - As Restated	198,121	206,169	198,843	162,495	148,429	92,759
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	198,121	206,169	198,843	162,495	148,429	92,759
Net Assets- June 30	206,169	198,843	162,495	148,429	92,759	36,918
60 days of expenses						
(Total Operating Expenses divided by 6)	12,755	16,548	22,599	15,678	22,612	22,640

Requested Rates for Internal Service Funds

Fee/Rate Information

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Warehouse overhead rate	5%	5%	5%	5%	5%	5%

The rates above indicate percentage markup on cost of uniform pieces and other warehouse items that are purchased by the warehouse fund for department employees.

Agency Proposed Budget

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	362.79	11.00	8.50	382.29	11.00	8.50	382.29	382.29
Personal Services	17,573,187	3,633,000	470,204	21,676,391	3,701,282	470,602	21,745,071	43,421,462
Operating Expenses	21,927,137	11,538,161	782,844	34,248,142	11,387,166	268,536	33,582,839	67,830,981
Equipment	122,112	50,005	250,000	422,117	50,005	0	172,117	594,234
Grants	1,637,948	357,000	0	1,994,948	385,000	0	2,022,948	4,017,896
Benefits & Claims	0	2,050,000	0	2,050,000	2,050,000	0	2,050,000	4,100,000
Debt Service	1,807	0	0	1,807	0	0	1,807	3,614
Total Costs	\$41,262,191	\$17,628,166	\$1,503,048	\$60,393,405	\$17,573,453	\$739,138	\$59,574,782	\$119,968,187
General Fund	3,780,841	3,017,493	1,014,568	7,812,902	2,819,539	269,904	6,870,284	14,683,186
State/Other Special	17,501,602	9,081,551	238,095	26,821,248	9,109,880	231,107	26,842,589	53,663,837
Federal Special	19,979,748	5,529,122	250,385	25,759,255	5,644,034	238,127	25,861,909	51,621,164
Expendable Trust	0	0	0	0	0	0	0	0
Total Funds	\$41,262,191	\$17,628,166	\$1,503,048	\$60,393,405	\$17,573,453	\$739,138	\$59,574,782	\$119,968,187

Agency Description

The Department of Environmental Quality is responsible for air, land, and water quality; hazardous waste facilities; underground storage tanks; solid waste management systems; drinking water systems; and mining operations. The department is also responsible for siting and needs analyses of large-scale energy facilities, and is the lead agency for reclamation and clean-up activities related to the federal and state superfund programs.

Agency Discussion*Goals and Objectives:*

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes from the 2007 biennium
- Goals and objectives and their correlation to the 2009 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

2005 Legislative Initiatives

The legislature approved three major initiatives during the 2005 session. Those initiatives and subsequent outcomes are summarized below:

- Increased funding and FTE for the total maximum daily load (TMDL) program to expedite completion. The department certified to the Environmental Quality Council (EQC) that in using a watershed approach to facilitate development of water quality restoration plans, all TMDL restoration plans will be completed for all areas by May 2007.
- Provided \$1.25 million of orphan share funding for remedial investigation work of the Kalispell Pole & Timber site where the state is a potentially liable party. The funding was to complete the study by completing research to fill the data gaps and establish a remediation plan. The department and the contractor, Tetra Tech are currently in the process of preparing the Remedial Investigation Report, which will evaluate the data collected and help determine where contamination is present. DEQ expects to solicit public comment on the document in January 2007.
- The department was provided authority to complete the EIS for the Gallatin River outstanding resource water petition ordered by the Board of Environmental Review in 1998. The petition is out for public review.

Agency Highlights

Department of Environmental Quality Major Budget Highlights	
♦	The department requests present law adjustments totaling \$35 million over the biennium
♦	19.5 FTE are being requested to address workload in the enforcement and permitting divisions
♦	Funding for operating expense are requested due to vacancies in the base year
♦	The majority of the state special revenue increase is attributed to proposed enhancements in the air quality program.
♦	The increase in general fund is attributable to information technology requests, enforcement FTE, and restoration of the energy planning unit
Major LFD Issues	
♦	The department continues to experience problems in recruiting and retention limiting the ability to fulfill statutory requirements
♦	Enhancements in the air quality program would require an increase in air quality permit fees
♦	Resources for coal bed methane may need to be increased in future biennia

Funding

The department's largest source of funding at 53 percent is state special revenue. This revenue is derived from permitting fees, fines, and bonds proceeds as is utilized to support specific department functions such as permitting, enforcement and remediation. The federal revenue is provided from the US Environmental Protection Agency (EPA) performance partnership grant, the Superfund Program and other federal grant resources. The partnership grant is a block grant to the state to provide funding the EPA had previously made through individual grants. Federal grants have varying match requirements. Wetland grants require 25 percent match, drinking water capital improvement requires 20 percent match, and non point source funding can require as much as 40 percent match. General fund is utilized for personal services and related operating expenses such as travel, communications, and equipment.

The following table summarizes funding for the agency, by program and source, as recommended by the executive. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2009 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
10 Central Management Program	\$ 2,551,051	\$ 2,650,856	\$ 1,116,141	\$ 6,318,048	5%
20 Plan.Prevent. & Assist.Div.	6,416,446	2,340,701	18,135,898	26,893,045	22%
30 Enforcement Division	1,019,028	700,105	628,756	2,347,889	2%
40 Remediation Division	2,000,000	14,541,231	17,873,971	34,415,202	29%
50 Permitting & Compliance Div.	2,696,661	32,085,484	13,866,398	48,648,543	41%
90 Petro Tank Release Comp. Board	-	1,345,460	-	1,345,460	1%
Grand Total	<u>\$ 14,683,186</u>	<u>\$ 53,663,837</u>	<u>\$ 51,621,164</u>	<u>\$ 119,968,187</u>	<u>100%</u>

Biennium Budget Comparison

The following table compares the executive budget request in the 2009 biennium with the 2007 biennium by type of expenditure and source of funding. The 2007 biennium consists of actual FY 2006 expenditures and FY 2007 appropriations.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	Present Law Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Biennium Fiscal 06-07	Total Exec. Budget Fiscal 08-09
FTE	373.79	8.50	382.29	373.79	8.50	382.29	362.79	382.29
Personal Services	21,206,187	470,204	21,676,391	21,274,469	470,602	21,745,071	36,884,246	43,421,462
Operating Expenses	33,465,298	782,844	34,248,142	33,314,303	268,536	33,582,839	62,761,655	67,830,981
Equipment	172,117	250,000	422,117	172,117	0	172,117	226,787	594,234
Grants	1,994,948	0	1,994,948	2,022,948	0	2,022,948	3,527,527	4,017,896
Benefits & Claims	2,050,000	0	2,050,000	2,050,000	0	2,050,000	0	4,100,000
Debt Service	1,807	0	1,807	1,807	0	1,807	1,807	3,614
Total Costs	\$58,890,357	\$1,503,048	\$60,393,405	\$58,835,644	\$739,138	\$59,574,782	\$103,402,022	\$119,968,187
General Fund	6,798,334	1,014,568	7,812,902	6,600,380	269,904	6,870,284	7,785,101	14,683,186
State/Other Special	26,583,153	238,095	26,821,248	26,611,482	231,107	26,842,589	43,862,922	53,663,837
Federal Special	25,508,870	250,385	25,759,255	25,623,782	238,127	25,861,909	51,753,999	51,621,164
Expendable Trust	0	0	0	0	0	0	0	0
Total Funds	\$58,890,357	\$1,503,048	\$60,393,405	\$58,835,644	\$739,138	\$59,574,782	\$103,402,022	\$119,968,187

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Fiscal 2008						Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2001 - Annual Maint for Relational Database Mgt System IT										
20	0.00	30,000	0	0	30,000	0.00	30,000	0	0	30,000
DP 2006 - Restore Energy Planning Functions										
20	2.00	160,641	0	0	160,641	2.00	165,922	0	0	165,922
DP 2007 - Biofuels Testing - OTO										
20	0.00	250,000	0	0	250,000	0.00	0	0	0	0
DP 5013 - MFSA/MEPA FTE										
50	1.00	0	75,679	0	75,679	1.00	0	71,865	0	71,865
DP 5014 - Subdivision Review FTE										
50	2.00	0	162,416	0	162,416	2.00	0	159,242	0	159,242
DP 5020 - Coal Bed Methane Compliance Monitoring FTE										
50	2.00	0	0	250,385	250,385	2.00	0	0	238,127	238,127
DP 5021 - METH Staff - Re-Instate FTE										
50	1.50	73,927	0	0	73,927	1.50	73,982	0	0	73,982
DP 5029 - Swift Gulch Drainage System OTO/BIE										
50	0.00	500,000	0	0	500,000	0.00	0	0	0	0
Total	8.50	\$1,014,568	\$238,095	\$250,385	\$1,503,048	8.50	\$269,904	\$231,107	\$238,127	\$739,138

Agency Issues

Personal Services

The present law personal services adjustment provides for full funding of all permanent positions less vacancy savings requirements. The adjustment is made to account for vacancies in the base year, non-legislative pay adjustments and to annualize the pay plan from the 2005 legislative session. The total adjustment for the department is \$7.2 million over the biennium.

The department had a biennial cost of vacancies of \$3.2 million, provided \$2.8 million in market based adjustments and had 9.25 FTE that were not filled at anytime during the base year. The data indicates that the department has pay issues in recruitment and retention and undertook an internal pay initiative to attempt to provide incentives to employees to remain with the department.

The data does not provide an indication of the amount of operating costs not expended due to the vacant positions. However, an estimate of this cost can be extrapolated from the executive's budget request.

Additional information regarding, vacancies, forgone operations costs, non-legislative pay adjustments, and recruitment issues is provided to allow the legislature to consider budgetary options that could possibly address the situation.

Vacancies

The department had 85 positions that were vacant at some point in the base year and 9.5 FTE that were not filled at all. The vacancy rate among the divisions was not consistent. Figure 1 provides vacancy rates for each division based upon the number of hours budgeted but not used (positions not filled in the base year are not included). If an agency was operating fully staffed, the vacancy savings would be close to the four percent applied by the 2005 legislature.

Of the 9.5 FTE not filled at any time during the base year, 6.25 remained vacant in November of 2006. Figure 2 provides data

regarding the open positions. The unfilled positions were mainly environmental scientists from the three major divisions: planning, prevention and assistance; remediation; and permitting and compliance.

The cost of operations adjustments for the vacancies is not included in the statewide present law adjustment that fully funds these positions. These adjustments are contained within individual decision packages in the Governor's budget. Figure 3 provides an estimate of the adjustments to restore base authority to operating costs due to vacancies.

Figure 2 Department of Environmental Quality Distribution of non-filled FTE		
	July 1, 2006	November 1, 2006
Planning, Prevention & Assistance	2	1
Remediation	3	2
Permitting & Compliance	4.25	3.25
Empty FTE	9.25	6.25

The costs include items such as travel, training, lab fees, and contracted services due to contracts not being released. Adding the impact of operations to the personal services adjustment for vacancies, the estimated biennial cost to restore base authority is \$3.0 million.

Non-legislative pay adjustments

Non-legislative pay adjustments

In order to address the issue the department developed an internal pay initiative utilizing FY 2006 budget authority provided for other purposes.

The adjustments associated with the internal pay initiative are considered non-legislative pay adjustments, as the legislature did not specifically provide for such adjustments, although they are allowed under statute. The department provided this adjustment within FY 2006 budget authority. These higher salaries are included in the statewide present law adjustment and therefore are funded in the next biennium.

In funding this plan, the department had to address:

1. How much in vacancy savings could be utilized;
2. Where reductions in the operating budget could be made; and
3. How much of an increase could be sustained based upon limited funding sources

Since the department is funded primarily with state special revenue derived from fees and federal grants, the stability of the funding needed to be considered.

Figure 1 Department of Environmental Quality Value of Base Year Vacancies		
	Percent	Dollar Value
Central Management Division	18.3	\$108,924
Planning, Prevention & Assist. Division	12.9	449,971
Enforcement Division	9.6	61,655
Remediation Division	12.9	292,291
Permitting and Compliance Division	10.3	749,225
Petroleum Tank Compensation Board	0.9	2,509
Annual Value of Vacancies		\$1,664,575

Figure 3 Department of Environmental Quality Base Adjustments due to Vacancies			
DP #	Description	FY 08	FY 09
PL 1002	Central Management Operating Adjustment	\$1,928	\$1,928
PL 2010	PPA Operating Adjustment	1,274,126	1,292,718
PL 3001	Enforcement Operating Adjustments	21,619	16,645
PL 5026	Permitting Operating Adjustments	208,000	208,000
	Total	\$1,505,673	\$1,517,363
	Biennium Total		\$3,023,036

The initiative was two-fold. First, employees that were paid at less than 80 percent of market were brought up to that level. Second, in areas where retention issues were identified an additional adjustment was provided. A total of 278 adjustments were then made.

Pay raises for the initiative are assumed to be those classified as “market adjustments” on the state human services system. Using the criteria, the cost of the pay initiative is calculated at \$736,500 per year or \$1.4 million over the biennium. This is an estimate, as the department provided other types of adjustments. For example, the department provided an additional \$407,000 per year in adjustments classified as position upgrades and competitive adjustments, some of which may have also been related to recruitment and retention issues.

The outcome of the pay initiative was mixed. The department reports stabilization in areas such as accounting, budget, and legal. But reports are of continued difficulties in recruiting and retaining qualified environmental scientists or engineers.

Recruitment and Retention

The department provided numerous examples of recruitment difficulties. One such example is for federally funded air quality specialist to work in conjunction with the Bureau of Land Management (BLM) on air permitting issues associated with the increased development of coal bed methane. This position has been unsuccessfully recruited for twice. At the time of this writing the department and the BLM are re-evaluating the requirements for this position.

The identified issues surrounding recruitment of qualified environmental scientists include:

- Pay - According to national occupational employment statistics the federal government and private industry pay higher
- Qualifications – The department reports air quality experience is not common
- Type of work – Personal service statistics demonstrate that regulatory positions are more difficult to fill than non-regulatory positions
- Economy - the robust economy has increased competition for employees in many areas

In addition, there are other competition and pay issues. The department is not the only agency of state government employing environmental scientists and engineers. The Departments of Transportation and Fish, Wildlife and Parks employ individuals with the same professional requirements, which are similarly classified. An attempt was made to determine the consistency in base pay across the three agencies, but the inconsistent use of job codes by the agencies prohibited a timely analysis. In order to determine if the issue exists across all departments a longer term study would be required. This information could potentially provide information that illustrates the internal competition for scientists within state government as a whole.

Potential Risks

Vacancies are also costly in terms of completing statutorily required duties within time limitations. The department is dependent upon qualified individuals to meet statutory guidelines for the regulated environment. The vacancy issue has contributed to the department’s inability to meet such guidelines in some areas. For example:

- One of three air permits is released within statutory timelines
- One half of all subdivision plat reviews are returned after the first review at or after the statutory deadline.

Delays in permitting can also affect development, such as of alternative energy sources, and delays in enforcement can put the quality of Montana land, air, and water at risk.

Legislative Assistance

The issue for the legislature is whether tools should be provided to the department to stabilize the workforce to allow the department to meet state and federal law.

Caveats and options

Prior to discussing options, there are overall considerations that should be applied when determining the value of each

option. These include:

- Union representation – any change to the status quo may need to be negotiated with the union prior to implementation
- Internal equity – the department will need to be able to defend any adjustment to the employees
- Progress – how progress towards a stable workforce should be measured and reported
- Non-pay related changes – how changes in environmental factors would improve the situation
- Funding – where the funding would come from to implement the change (i.e. increased fees or increased general fund)

The following options are provided as starting points.

The department enacted a pay initiative to adequately compensate individuals based on current market conditions. The pay market changes regularly and the adjustment included in the pay plan does not move individuals closer to market. To keep pace with the changing market, the options include:

- Provide funding to increase salaries by 5 percent to at least 85 percent of market and not to exceed 100 percent of market. Preliminary calculations indicate this would cost approximately \$0.8 million per year.
- Allow the department to create another pay initiative within the approved budget, knowing that operation costs will be reduced and the annualization of the adjustments will be included in the 2011 biennium personal services adjustment. Based on experience from the FY 2006 pay initiative, this would cost at least \$1.4 million per year.
- Provide funding for the department to develop a competitive pay scale for environmental engineers

Work environment is another important factor in recruiting and retaining employees. Addressing work environment may not be as simple as addressing pay issues. Some options include

- Provide funding and authority for contracted services to determine what characteristic department employees want in their work environment
- Evaluate the use and availability of part-time and flex-time, as well as educational and professional benefits

The type of work has been included in the reasoning behind why the recruitment and retention problem exists. Working in a regulatory environment has its challenges. The options to make this type of work more attractive can include:

- Establish in statute and fund a bonus system for teams that significantly increase the number of permits, plat, total maximum daily load (TMDL) plans, or enforcement actions that meet statutory guidelines. The amount required to implement could be established by the legislature providing a lump sum and letting the department implement a bonus plan or providing guidelines for implementation and establish a corresponding appropriation.
- Fund the development of a new college graduate program designed to provide the experience necessary to meet professional certification or licensing, with the ability to adjust pay as progress is made toward that certification. A “repayment” period after certification would need to be included.
- Increase funding to provide federal level wages to those individuals who work directly to insure federal regulations are met or exceeded
- Provide contracted services in lieu of personal services.

To implement or not

If the legislature is interested in providing funding for any of the options, they can be funded three different ways:

- Appropriate authority in HB 2 and condition it to assure progress is being made toward stabilizing the workforce
- Appropriate authority in HB 2 and request a companion bill to clearly delineate the type of activity the legislature wishes for the department to undertake, and outline performance criteria to measure progress towards stabilizing the workforce
- Request legislation to appropriate funding and provide for legislative intent and performance management criteria.

Requests for new FTE

The executive budget request includes 19.5 FTE for an additional \$2.0 million in personal services costs. The specific decision packages with FTE requests are described in Figure 4. Of this 19.5 FTE, 7.5 are requested in order to convert modified FTE approved via the budget amendment process to permanent FTE. Those FTE are italicized in Figure 4.

Figure 4
Department of Environmental Quality
Requested FTE

DP #	Description	FTE	FY 08	FY 09
PL 1001	Business Process Improvement	2	\$132,564	\$132,678
PL 2009	<i>Wetlands Pilot</i>	1	51,769	51,810
NP 2006	Restore Energy Planning Functions	2	105,248	105,334
PL 3002	Enforcement FTE	1	49,539	49,577
PL 5001	Oil & Gas Registration FTE	3	183,843	184,026
PL 5002	Major Source FTE	1	47,402	47,447
PL 5005	Air Pollutant Tracking	1	47,402	47,447
PL 5018	Public Water Supply FTE	1	49,539	49,577
NP 5013	MFS/MEPA	1	49,539	49,577
NP 5014	<i>Subdivision Review FTE</i>	2	107,958	108,043
NP 5020	<i>Coal Bed Methane Monitoring</i>	3	133,532	133,666
NP 5021	<i>Meth Staff</i>	<u>1.5</u>	<u>73,927</u>	<u>73,982</u>
	Total	<u>19.5</u>	<u>\$1,032,262</u>	<u>\$1,033,164</u>
	Biennium Total			\$2,065,426

Given the multitude of personal services issues faced by the department, the legislature may wish to ask the following questions during deliberations about decision packages that are requesting FTE:

- Is there a recruitment plan in place for the position?
- What is the realistic time period required to fill this position?
- Can contracted services replace the FTE?
- What are the contingency plans if hiring is unsuccessful?

The Clean Air Act

The federal Clean Air Act provides for the amount of pollutants that can be emitted from various sources and the consequences for entities that are unable to meet the emission requirements. To manage the amount of pollution emissions the act provides that a permitting program be controlled by the states, because at the time of the passage of the act in 1990, thirty five states already had permitting programs. The act also directs the state to utilize fees from permits to fund the program. If a state is unable to meet the requirements of the act, the Environmental Protection Agency (EPA) can take over the management of the program. Currently the department does not consistently meet statutorily defined time limitations in releasing air permits. A number of adjustments are being requested to potentially remedy this situation. These adjustments have a significant cost.

During FY 2006, the department expended \$2.5 million in air quality permit fees; the Governor proposes spending \$3.9 million in FY 2008. This represents an increase in expenditures of 56 percent. The adjustments are summarized in Figure 5.

The legislature does not directly establish fees for the program but the level of appropriation is the driving force in setting the fees. Department staff calculates the air quality permit fees based on anticipated workload and the amount of fee revenue appropriated by the legislature. Those fees are adopted through the rule making process and require final approval by the Board of Environmental Review (BER) prior to implementation.

Figure 5
Department of Environmental Quality
Air Program Proposed Adjustments

DP #	Description	FY 08	FY 09
DP 5001	Oil and Gas Well Registration - 3.00 FTE	\$183,451	\$176,569
DP 5002	Permitting major sources - 1.00 FTE	75,076	71,922
DP 5003	Air online compliance	77,250	78,000
DP 5005	Air emissions tracking	75,076	71,922
DP 5006	Air Resources Bureau Relocation	53,560	54,080
DP 5028	Air Regulatory Assistance	<u>257,000</u>	<u>260,000</u>
	Total	<u>\$721,413</u>	<u>\$712,493</u>
	Biennium Total		\$1,433,906

The issue for the legislature is to determine what adjustments are necessary to encourage the program to operate within state and federal guidelines. Each decision package is discussed in the Permitting and Compliance section and provides options for legislative consideration. The common element in those discussions is the need for clear performance measures and the potential use of a reporting requirement to assure progress is being made towards meeting statutory and federal requirements.

Coal Bed Methane

The department is charged with air and water quality control and enforcement. This extends to the development of coal bed methane (CBM) resources in Montana. The Governor's budget includes appropriation authority for FTE to manage air and water quality issues associated with future CBM development. The major source of funding is from the Bureau of Land Management (BLM) to establish cooperative management in this area. The BLM agreed to provide resources from FY 2007 to FY 2012 for this purpose. The department obtained authority and modified FTE for FY 2007 through a budget amendment. The type of work provided by this contract would most likely not end in FY 2012. However, the federal government has not committed resources past this date.

These packages provide for converting modified FTE to permanent FTE. The dedicated FTE represents increased attention to the permitting issues related to the CBM industry. Should the industry begin to develop, such as it has in Wyoming, the legislature may need to provide additional resources in the future for ongoing permitting and enforcement activities.

Indirect Rate Changes

The department is requesting a methodology change in the calculation of the indirect cost allocation plan. In the past, a fixed rate has been applied against personal services, temporary services, and work-study contracts charged within each division of the department. The department's review of the proprietary fund calculation disclosed that programs supporting more personnel and less contract/operating services were bearing a disproportionate share of indirect costs compared with programs with high operating and contract service costs.

To remedy this situation the department is requesting the methodology be changed from 24 percent against personal services, temporary services, and work-study contracts to 22.5 percent and an additional 3 percent on operating costs for FY 2008. The proposed rates for FY 2009 would be 21 percent for personal services and 4 percent for operating costs. These rates would be the legislative cap for the department to negotiate with federal contractors. The actual rate may be lower but not any higher.

This change in methodology would raise an additional \$1.1 million in revenues, a portion of which would cover the cost of including department rent and copier services in the funds expenses. This would be approximately \$624,000 per year for rent and copy charges and increased personal service costs of \$475,000. These costs are attributed to vacancies in the base year and the department wide pay initiative.

The Central Management program contains a further discussion of the impact on that program budget. The legislature needs to be aware that the executive's budget was established utilizing the proposed rates and the inclusion of rent and copier services as expenses to the fund. If the legislature disapproves the change in methodology or imposes a different rate, the executive's budget will need to be adjusted.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	10.00	2.00	0.00	12.00	2.00	0.00	12.00	12.00
Personal Services	541,448	319,809	0	861,257	323,646	0	865,094	1,726,351
Operating Expenses	1,133,321	1,239,168	0	2,372,489	1,045,887	0	2,179,208	4,551,697
Equipment	0	20,000	0	20,000	20,000	0	20,000	40,000
Total Costs	\$1,674,769	\$1,578,977	\$0	\$3,253,746	\$1,389,533	\$0	\$3,064,302	\$6,318,048
General Fund	316,482	1,058,320	0	1,374,802	859,767	0	1,176,249	2,551,051
State/Other Special	1,125,281	195,424	0	1,320,705	204,870	0	1,330,151	2,650,856
Federal Special	233,006	325,233	0	558,239	324,896	0	557,902	1,116,141
Total Funds	\$1,674,769	\$1,578,977	\$0	\$3,253,746	\$1,389,533	\$0	\$3,064,302	\$6,318,048

Program Description

The Central Management Program consists of the director's office, a financial services office, and an information technology office. It is the organizational component of the DEQ responsible and accountable for the administration, management, planning, and evaluation of agency performance in carrying out department mission and statutory responsibilities. The director's office includes the director's staff, the deputy director, an administrative officer, public information officer, a centralized legal services unit, and a centralized personnel office. The financial services office provides budgeting, accounting, payroll, procurement, and contract management support to other divisions. The information technology office provides information technology services support to other divisions.

Program Highlights

Central Management Division Major Program Highlights	
♦	The executive is requesting \$1.8 million for a business process improvement initiative
♦	A change in the indirect calculation rate is proposed
Major LFD Issues	
♦	Performance reporting for the business process improvement initiative could be beneficial to the legislature
♦	The proposed indirect rate is included in the budget request and so, if not adopted the budget will need to be adjusted

Funding

The majority of the functions in the division is funded with non-budgeted proprietary funds, and is not appropriated through HB 2. The proprietary funding is based upon a negotiated indirect rate with the federal Environmental Protection Agency (EPA). The indirect rate is assessed against funding all personal services, temporary services, and work-study projects within each division, and transferred to the Central Management Program to fund operating costs. A further discussion is included in the proprietary rate section.

Appropriated funds consist of general fund for support of the Board of Environmental Review, a business process improvement initiative, and general operating costs, state special revenue, predominantly Montana Environmental Protection Act fees and numerous small federal grants.

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table						
Central Management Progr						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 316,482	18.9%	\$ 1,374,802	42.3%	\$ 1,176,249	38.4%
01100 General Fund	316,482	18.9%	1,374,802	42.3%	1,176,249	38.4%
02000 Total State Special Funds	1,125,281	67.2%	1,320,705	40.6%	1,330,151	43.4%
02058 Petroleum Storage Tank Cleanup	7,032	0.4%	-	-	-	-
02070 Hazardous Waste-Cercla	9,865	0.6%	-	-	-	-
02075 Ust Leak Prevention Program	44,214	2.6%	68,252	2.1%	68,162	2.2%
02097 Environmental Rehab & Response	55,123	3.3%	100,000	3.1%	100,000	3.3%
02157 Solid Waste Management Fee	24,982	1.5%	36,734	1.1%	36,686	1.2%
02201 Air Quality-Operating Fees	45,282	2.7%	52,456	1.6%	52,387	1.7%
02202 Asbestos Control	15,166	0.9%	9,477	0.3%	9,465	0.3%
02204 Public Drinking Water	5,118	0.3%	7,347	0.2%	7,337	0.2%
02278 Mpdcs Permit Program	30,516	1.8%	37,763	1.2%	37,713	1.2%
02418 Subdivision Plat Review	23,439	1.4%	26,228	0.8%	26,193	0.9%
02458 Reclamation & Development	36,822	2.2%	47,240	1.5%	47,178	1.5%
02542 Mt Environ Policy Act Fee	820,158	49.0%	902,661	27.7%	912,526	29.8%
02845 Junk Vehicle Disposal	5,732	0.3%	30,416	0.9%	30,376	1.0%
02954 Septage Fees	1,832	0.1%	2,131	0.1%	2,128	0.1%
03000 Total Federal Special Funds	233,006	13.9%	558,239	17.2%	557,902	18.2%
03014 Dw Srf Ffy05 Grant	-	-	15,722	0.5%	15,701	0.5%
03046 05 Exchange Network Grant	-	-	130,000	4.0%	-	-
03067 Dsl Federal Reclamation Grant	10,442	0.6%	14,693	0.5%	14,675	0.5%
03155 2004 Network Exchange Grant	-	-	120,000	3.7%	-	-
03228 L.U.S.T./Trust	15,964	1.0%	59,803	1.8%	59,725	1.9%
03262 Epa Ppg	-	-	144,879	4.5%	144,689	4.7%
03385 Epa/One-Stop Grant	92,368	5.5%	50,000	1.5%	-	-
03433 Epa Perf Partnership Fy04-05	97,808	5.8%	-	-	-	-
03436 Nps 04 Staffing & Support	-	-	-	-	13,647	0.4%
03437 Sep Base 2004	1,543	0.1%	9,477	0.3%	9,465	0.3%
03440 Dw Srf 03	2,475	0.1%	-	-	-	-
03452 Epa Readiness Grant	-	-	-	-	300,000	9.8%
03691 Nps Staffing/Support	12,406	0.7%	13,665	0.4%	-	-
Grand Total	\$ 1,674,769	100.0%	\$ 3,253,746	100.0%	\$ 3,064,302	100.0%

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
Fiscal 2008					Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				217,607					221,486
Vacancy Savings				(30,362)					(30,518)
Inflation/Deflation				915					1,134
Fixed Costs				(30,341)					(29,771)
Total Statewide Present Law Adjustments				\$157,819					\$162,331
DP 1001 - Business Process Improvement OTO									
2.00	1,000,000	0	0	1,000,000	2.00	800,000	0	0	800,000
DP 1002 - Central Management Operating Adjust									
0.00	38,664	90,439	20,692	149,795	0.00	39,583	96,899	19,501	155,983
DP 1003 - Central Management Information Technology Grants									
0.00	0	0	271,363	271,363	0.00	0	0	271,219	271,219
Total Other Present Law Adjustments									
2.00	\$1,038,664	\$90,439	\$292,055	\$1,421,158	2.00	\$839,583	\$96,899	\$290,720	\$1,227,202
Grand Total All Present Law Adjustments				\$1,578,977					\$1,389,533

**LFD
COMMENT**
Personal Services Adjustment

The components driving the biennial personal services adjustment are about \$200,000 for vacant positions and \$200,000 for non-legislative pay adjustments. The remainder is attributed to annualization of HB 447 from the 2005 session, longevity adjustments, and an employer paid increase in health insurance premiums. The non-legislative pay increases are attributable to market adjustments provided to the attorneys as part of the department-wide pay initiative. Please see agency issues for a full description of the issue.

DP 1001 - Business Process Improvement OTO The executive is requesting \$1.8 million of general fund for the department to analyze its existing business processes to identify and implement improvements in quality of service, efficiency, timeliness, consistency and cost-effectiveness. This proposal would support this effort in two major areas – accounts receivable, and subdivision permit application and review.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The DEQ was formed from parts of three former departments, each with multiple systems and processes that created an environment of inefficient operations, complicated accounting, reduced internal controls, impaired effective communication between the DEQ enterprise database (CEDARS) and various federally mandated databases, and limited ability to report and compare activity across the agency for the purposes of measuring productivity, efficiency, and results. This infrastructure leads to costly inefficiencies and delayed revenue collections.

Goals:

1. To consolidate multiple accounts receivable processes into one uniform system using standardized processes administered by the DEQ Office of Financial Services;
2. To develop an online web-based subdivision permit application and fee collection, which will expedite permitting, reduce errors and re-submittals, and accelerate cash collection;
3. To optimize the subdivision review process for efficiency, quality of service, and timeliness while maintaining environmental protection standards; and
4. To apply cost effective improvements identified in the subdivision permitting process to other department permit functions, where appropriate.

Performance Criteria: Work progress and implementation will be the responsibility of the project team(s), composed of the business process management (BPM) lead, contract employees, and DEQ Financial Services, Information Technology, and Program representatives. The chief financial officer (CFO) would be the process owner and responsible for oversight to insure AR (accounts receivable) goals and milestones are met. The Permitting and Compliance Division Administrator would be the process owner and responsible for oversight to ensure subdivision permitting goals and milestones are met.

Accounts Receivable System

Work/performance measurement and monthly reporting to project owner:

1. Identify "as is" processes and establish a timeline for completion of work flow documentation for each process within project scope. Provide project owner with monthly reports comparing work progress to scheduled time line;
2. Schedule conversion, testing and implementation of standard processes for identified systems;
3. Compare average processing time for billing, fee collection, cost recovery, and revenue recognition before and after new system implementation;
4. Evaluate and report effectiveness of online fee collection and cost recovery process; and
5. Assess project cost-effectiveness by documenting achieved benefits and improvements compared to development costs.

Subdivision Permitting Application and Review

1. Identify "as is" processes and establish a timeline for completion of work flow documentation for each process within project scope. Provide project owner with monthly reports comparing work progress to scheduled time line;
2. Schedule conversion and implementation of standard processes for identified systems;
3. Compare incidence of incomplete and deficient applications requiring multiple reviews and repeat correspondence before and after new system implementation;
4. Compare number and types of complaints before and after new system implementation;
5. Compare average permit handling time before and after implementation of improvements;
6. Assess project cost-effectiveness by documenting achieved benefits and improvements compared to development costs; and
7. Determine whether subdivision changes could be cost effectively applied in whole or in part to other permit functions.

Milestones:

Accounts Receivable System

1. Inventory existing systems and document high level "as is" processes for all department programs by June 2008.
2. Identify common elements, process improvements and standard practices by September 2008.
3. Complete design of uniform system and create online web-based payment processing and convert at least one work unit by January 2009.
4. Convert and implement uniform system, including online web-based payment processing for at least two more work units by June 2009.

Subdivision Permitting Application and Review

1. Document existing subdivision permit processes by January 2008.
2. Identify improvements and determine the types of subdivisions that fit online application process by June 2008.
3. Implement manual improvements by January 2009.
4. Create and implement online application for selected types of subdivisions by June 2009

FTE: The department anticipates hiring 2.00 modified FTEs to provide overall project management and coordination activities, as well as several contractors. The project will also require time from department financial, IT, and program staff, the Department of Administration, and outside stakeholders from the public and the regulated community.

Funding: Goals (#1 and #4) of centralizing accounts receivable and applying the subdivision permit process to other areas will ultimately affect all programs. General fund is being requested because of the department-wide nature of the project.

Obstacles:

1. The current workload of both accounts receivable and subdivision review staff limits the ability for front-line employees to share their knowledge of these systems and processes and to offer improvements;
2. Meeting greater institutional resistance than anticipated. Initial indications from select customers are positive; however, if resistance develops we will organize an education effort to explain consumer benefits;
3. Meeting greater resistance to change than anticipated from front-line staff. Hopefully, the merits of the AR and subdivision permit application will sell themselves; however, if necessary we will institute an education effort to convey overall department benefits;
4. Until these new systems are developed, debugged, and fully operational, existing systems must remain in place, which creates potential for duplication;
5. Uncovering bigger problems than anticipated, requiring more time and money to fix; and
6. Creating unanticipated derivative problems when making system changes.

Risks:

1. Delayed revenue due to poor cash management, billing, and collection processes;
2. Decreased productivity due to inefficient and labor intensive processing of accounts receivable/billing activities;
3. Increased public frustration, criticism and complaints due to inconsistent and cumbersome accounts receivable and subdivision permit processing; and
4. Increased potential for misstatement of financials due to inadequate and inconsistent accounting of A/R transaction.

LFD
ISSUE

Appropriate Funding

The department provides a clear description of the intentions of this decision package. There are two issues to address: 1) subdivision review activities; and 2) the use of general fund.

Subdivision review activities

The department was provided a \$200,000 biennial appropriation to address workload issues in the subdivision review program through contracted services and training of potential applicants. Minimal dollars were spent in FY 2006 for contracted services and the training program did not get off the ground due to staff vacancies and lack of an overall coordinated plan. The proposal above could provide information necessary to plan accordingly to make an impact on the ever present backlog in the subdivision review program.

The use of general fund

The request of general fund should be reviewed in the context of what the benefit is to the state as a whole to achieve streamlined business processes within the department. Two points to consider would be: 1) the department receives general fund support to achieve overall department goals, and this request should improve their ability to meet their goals; or 2) the department contends that an improved process will improve cash flow; this request, if implemented as written, may result in reduced general fund requirements in the future.

**LFD
ISSUE
CONT.**

However, alternative funding may be available from utilizing subdivision review fees for the portion of the project associated with the subdivision review process. The subdivision plat review fund had a fund balance of \$1.2 million at the end of FY 2006. Figure 1 describes the relationship between revenues and expenses for the last four completed years. During this time the fund balance has been increasing. The legislature could opt to fund the portion of the proposal for subdivisions with subdivision review fees.

Given these issues the legislature may wish to track progress as it occurs. To do this the legislature could request performance management reporting after critical milestones as language in HB 2 or in a companion bill.

Figure 1
Subdivision Plat Review Fees

	FY 2003	FY 2004	FY 2005	FY 2006
Revenue	\$1,054,524	\$1,236,587	\$1,489,634	\$1,756,435
Expenditures	(911,364)	(978,574)	(1,157,488)	(1,209,963)
Non-expended Revenues	\$143,159	\$258,014	\$332,147	\$546,471

DP 1002 - Central Management Operating Adjust - The executive is requesting a base adjustment for the Central Management Division consisting of adjustments totaling \$305,778 over the biennium to contracted services, office supplies, and travel. The remaining is attributable to indirect costs. The package also reduces the base expenses in office rent, copy costs, and web services and increases indirect costs in order for the department to implement a change in the manner indirect costs are calculated.

**LFD
COMMENT**

If the legislature does not approve the department's proposed change to the indirect formula, this decision package will need to be adjusted.

DP 1003 - Central Management Information Technology Grants - The executive is requesting the addition of approximately \$540,000 to upgrade databases and hardware to achieve the long-term goal of participating in the environmental information network to provide access to information to assist in decision making in the event of national disasters and/or terrorist activities funded by the Environmental Protection Agency (EPA).

Proprietary Rates**Proprietary Program Description**

The Central Management Program provides management services, public information, legal services, and human resources, as well as fiscal services such as budgeting, accounting, payroll, procurement and contract management support to the programs within the department. The information technology office provides information technology services support to the same customers.

Proprietary Revenues and Expenses

The department has one proprietary fund, an internal service fund used to account for the department's indirect cost activity. The department negotiates an indirect rate with EPA based on services mutually agreed upon. The department is proposing to add some operating expenses previously directly charged to programs to be covered by proprietary funding. This includes office rent, copier costs and web services.

The department anticipates negotiating the indirect cost rates with the U.S. Environmental Protection Agency (EPA) of approximately 22.5 percent applied against personal services and 3 percent applied against operating costs for FY 2008, and 21 percent and 4 percent respectively for FY 2009. The anticipated revenues for FY 2008 and FY 2009 are \$5.5 million per year in comparison to FY 2006 collections of \$4.2. The indirect rate proposed to the legislature will fund 55.50 FTE, the same number funded by the rate in FY 2006.

Expense Description: The major cost drivers within this program are personal services costs, contracts and fixed operating expenses. Expenses are determined by projecting increases or decreases in program staff, contacted activities and fixed operating expenses. For FY 2006 the proprietary fund expended \$4.4 million, while the estimated expenditures for both FY 2008 and FY 2009 is \$5.5 million. An increase in \$1.1 million that is attributable to the inclusion of rent and copier services for the entire department and non-legislative pay increases for FTE funded with proprietary dollars.

Working Capital: The objective of program management is to recover costs to fund necessary, ongoing operation of the Central Management Program. The fund normally carries a 60-day working capital balance to meet immediate cash needs for covering payroll and various operating costs that are not charged equally throughout the year.

Fund Equity: The department does not reserve a fund balance on the accounting records nor does it try to maintain a fund balance. The revenues generated should be enough to cover the current year's operations. However, due to timing factors, the fund balance does not always equal zero.

Proprietary Rate Explanation

The Department is requesting a methodology change in the calculation of the indirect cost allocation plan. In the past, a fixed rate has been applied against personal services, temporary services, and work-study contracts charged within each division of the department. Review of the proprietary fund calculation disclosed that programs supporting more personnel and less contract/operating services were bearing a disproportionate share of indirect costs compared with programs with high operating and contract service costs.

The legislature approves a cap for the indirect rate. In the previous legislative session, this cap was set at 24% on the personal services basis. For the 2008/2009 biennium, the Department requests approval of a 22.5% cap on the personal services rate and 4% cap on the operating rate. The department negotiates the annual indirect rate the EPA. The approved rate is a fixed rate which may be slightly lower than the cap set by legislature, but never higher than the legislative cap.

LFD COMMENT

The proposed rate change would support 55.50 FTE, and cover the rent and copier services expenses for the department. A majority of the increases are attributed to personal services costs. This includes approximately \$372,500 per year for non legislative pay adjustments provided as part of the agency wide pay initiative, and an additional \$103,000 for positions that were vacant all or part of FY 2006.

The addition of department rent and photo copier services as an expense to the proprietary fund contributes \$624,000 to the projected increase in expenditures from the fund. The decrease in program budgets for these charges were handled in an adjustment to fixed costs for rent and an adjustment to base costs for copier services.

LFD ISSUE

Requested Rate Utilized

The requested change in the indirect calculation is already integrated into the department's budget. If the legislature disapproves the change in methodology or imposes a different rate, the executive's budget will need to be adjusted.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name		
06509	DEQ Indirects	5301	DEQ	Central Management Division		
	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Revenue from State Services	2,057,043	2,105,376	2,624,142	5,078,720	5,556,743	5,591,445
Net Fee Revenue	2,057,043	2,105,376	2,624,142	5,078,720	5,556,743	5,591,445
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	119,534	-	-	-
Other Operating Revenues	56,227	-	3,024	-	-	-
Total Operating Revenue	2,113,270	2,105,376	2,746,700	5,078,720	5,556,743	5,591,445
Operating Expenses:						
Personal Services	2,467,609	2,691,955	2,970,567	3,250,680	3,955,023	3,936,026
Other Operating Expenses	1,143,806	1,417,642	1,182,083	1,293,549	1,573,830	1,566,270
Total Operating Expenses	3,611,415	4,109,597	4,152,650	4,544,229	5,528,853	5,502,296
Operating Income (Loss)	(1,498,145)	(2,004,221)	(1,405,950)	534,491	27,890	89,149
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	(1,181)	-	(54,192)	-	-	-
Federal Indirect Cost Recoveries	1,571,619	1,665,274	1,792,090	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	1,570,438	1,665,274	1,737,898	-	-	-
Income (Loss) Before Operating Transfers	72,293	(338,947)	331,948	534,491	27,890	89,149
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	14,018	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	72,293	(338,947)	345,966	534,491	27,890	89,149
Total Net Assets- July 1 - As Restated	1,109,504	1,182,067	842,340	1,156,198	1,690,689	1,718,579
Prior Period Adjustments	270	(780)	(32,108)	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	1,109,774	1,181,287	810,232	1,156,198	1,690,689	1,718,579
Net Assets- June 30	1,182,067	842,340	1,156,198	1,690,689	1,718,579	1,807,728
60 days of expenses						
(Total Operating Expenses divided by 6)	601,903	684,933	692,108	757,372	921,476	917,049
Requested Rates for Internal Service Funds						
Fee/Rate Information						
	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Requested Rates for Internal Service Funds	22.6	23.0	25.0	25.0	-	-
(Changed Methodology see below)						
Personal Services					22.5	21.0
Operating Expenditures					3.0	4.0
The department has one proprietary fund, which is an internal service fund used to account for the Department's indirect cost activity. The department anticipates negotiating the indirect cost rates with the U.S. Environmental Protection Agency (EPA) of approximately 22.5% applied against personal services and 3% applied against operating costs for FY2008 and 21% and 4% respectively for FY 2009. Revenues generated by the current indirect cost rates fund 55.50 FTE.						

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	89.58	2.00	2.00	93.58	2.00	2.00	93.58	93.58
Personal Services	4,246,220	957,476	105,248	5,308,944	975,979	105,334	5,327,533	10,636,477
Operating Expenses	5,998,514	1,767,638	85,393	7,851,545	1,799,269	90,588	7,888,371	15,739,916
Equipment	97,490	35,836	250,000	383,326	35,836	0	133,326	516,652
Total Costs	\$10,342,224	\$2,760,950	\$440,641	\$13,543,815	\$2,811,084	\$195,922	\$13,349,230	\$26,893,045
General Fund	2,155,109	730,501	440,641	3,326,251	739,164	195,922	3,090,195	6,416,446
State/Other Special	801,695	375,133	0	1,176,828	362,178	0	1,163,873	2,340,701
Federal Special	7,385,420	1,655,316	0	9,040,736	1,709,742	0	9,095,162	18,135,898
Total Funds	\$10,342,224	\$2,760,950	\$440,641	\$13,543,815	\$2,811,084	\$195,922	\$13,349,230	\$26,893,045

Program Description

The Planning, Prevention, and Assistance Division consist of three bureaus: Technical and Financial Assistance; Water Quality Planning; and Air, Energy and Pollution Prevention. The division:

1. Finances construction and improvement of community drinking water and wastewater systems, and provides engineering review and technical assistance to Montana communities water infrastructure planners;
2. Assists small businesses in reducing emissions and complying with environmental regulations;
3. Monitors air and water quality conditions, assesses potential pollution problems, and aids industry achieve cost effective compliance;
4. Assists community's to plan for energy, watershed, airshed, and solid and hazardous waste management;
5. Aids in development of water Total Maximum Daily Loads (TMDL);
6. Proposes rules and policy and develops environmental protection criteria;
7. Provides analysis to assess the cost effectiveness of environmental programs;
8. Finances energy saving retrofits of public buildings and renewable energy systems for homeowners and small businesses; and
9. Provides technical assistance and education to builders, homeowners and businesses on energy efficiency and renewable energy, indoor air quality, radon, recycling and solid waste reduction.

Program Highlights

Planning Prevention and Assistance Division Major Program Highlights	
♦	The operating adjustment is due to a large number of vacancies in the base year
♦	The executive is requesting the energy planning unit be restored and the waste recycling program expanded
♦	\$250,000 is included for equipment to test biofuels for marketability

Major LFD Issues

- ◆ The proposal to expand waste reduction and recycling is lacking clear performance criteria and milestones
- ◆ Reporting to the energy and telecommunications interim sub-committee regarding the activities of the energy planning unit may be beneficial to the legislature.

Funding

The division is funded with general fund and a variety of state special and federal revenue sources. The division's primary state special revenue funds are the fees collected for air quality permits and the interest from the investments made in community drinking water projects. The largest portion of federal funds are provided through the Environmental Protection Agency (EPA) programs, including the performance partnership grant and funds for non-point source water projects under the federal Clean Water Act.

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Plan.Prevent. & Assist.						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 2,155,109	20.8%	\$ 3,326,251	24.6%	\$ 3,090,195	23.1%
01100 General Fund	2,155,109	20.8%	3,326,251	24.6%	3,090,195	23.1%
02000 Total State Special Funds	801,695	7.8%	1,176,828	8.7%	1,163,873	8.7%
02070 Hazardous Waste-Cercla	130,156	1.3%	123,066	0.9%	122,947	0.9%
02157 Solid Waste Management Fee	85,563	0.8%	129,647	1.0%	129,664	1.0%
02201 Air Quality-Operating Fees	188,457	1.8%	252,162	1.9%	252,295	1.9%
02203 Arco	-	-	25,339	0.2%	25,339	0.2%
02206 Agriculture Monitoring	6,279	0.1%	5,406	0.0%	5,415	0.0%
02223 Wastewater Srf Special Admin	82,857	0.8%	105,706	0.8%	94,988	0.7%
02278 Mpdcs Permit Program	88,529	0.9%	93,233	0.7%	93,406	0.7%
02316 Go94B/Ban 93D Admin	26,132	0.3%	58,075	0.4%	54,979	0.4%
02388 Misc. State Special Revenue	26,267	0.3%	23,390	0.2%	23,365	0.2%
02491 Drinking Water Spec Admin Cost	118,604	1.1%	164,069	1.2%	163,967	1.2%
02555 Alternative Energy Rev Loan	26,121	0.3%	36,121	0.3%	31,463	0.2%
02973 Univ System Benefits Program	22,730	0.2%	160,614	1.2%	166,045	1.2%
03000 Total Federal Special Funds	7,385,420	71.4%	9,040,736	66.8%	9,095,162	68.1%
03003 Tribal Air Quality Fund	784	0.0%	-	-	-	-
03007 Doe Special Projects	51,999	0.5%	177,819	1.3%	187,353	1.4%
03010 Nps 04 Projects	44,408	0.4%	-	-	-	-
03014 Dw Srf Ffy05 Grant	403,862	3.9%	711,215	5.3%	710,569	5.3%
03033 Energy/Fsd	57,573	0.6%	95,757	0.7%	95,726	0.7%
03100 Epa / Drinking Water Srf	31,368	0.3%	-	-	-	-
03106 Nps 05 Projects	1,237	0.0%	-	-	-	-
03107 National Park Service - Yellowstone	8,893	0.1%	44,587	0.3%	44,716	0.3%
03227 Fy06 Wetlands Grant	183,372	1.8%	664,772	4.9%	664,653	5.0%
03249 Nps Implementation Grant	357,846	3.5%	-	-	-	-
03262 Epa Ppg	-	-	2,567,491	19.0%	2,615,718	19.6%
03302 Wetlands Grant	37,145	0.4%	-	-	-	-
03311 Doe - Codes And Standards	4,292	0.0%	-	-	-	-
03312 Doe-Rebuild America	19,746	0.2%	45,841	0.3%	61,890	0.5%
03318 Mt School Lab Clean Up	15,617	0.2%	41,585	0.3%	49,775	0.4%
03364 Fy06 Nps 319 Projects Grant	1,234,135	11.9%	1,638,945	12.1%	1,638,945	12.3%
03433 Epa Perf Partnership Fy04-05	2,537,970	24.5%	-	-	-	-
03435 Pm 2.5 Fiscal Year 2004	307,457	3.0%	200,227	1.5%	164,540	1.2%
03436 Nps 04 Staffing & Support	-	-	-	-	1,235,689	9.3%
03437 Sep Base 2004	370,806	3.6%	735,796	5.4%	739,752	5.5%
03440 Dw Srf 03	160,326	1.6%	-	-	-	-
03457 Wpc Srf Fy03 Grant	301,699	2.9%	284,674	2.1%	269,237	2.0%
03459 Doe Competitive Special Proj	62,212	0.6%	112,778	0.8%	112,720	0.8%
03465 Doe Washington State Univ	11,905	0.1%	12,549	0.1%	20,360	0.2%
03676 Bureau Of Land Management	39,994	0.4%	41,200	0.3%	41,600	0.3%
03691 Nps Staffing/Support	963,311	9.3%	1,259,890	9.3%	-	-
03695 Srf St Tribal Rel Agrmt Grant	59,850	0.6%	168,807	1.2%	202,071	1.5%
03716 Doe - Omnibu	2,008	0.0%	-	-	-	-
03814 Epa Water Quality 205J	105,859	1.0%	96,760	0.7%	100,000	0.7%
03817 Emap	9,746	0.1%	140,043	1.0%	139,848	1.0%
Grand Total	\$ 10,342,224	100.0%	\$ 13,543,815	100.0%	\$ 13,349,230	100.0%

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
Fiscal 2008					Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				1,052,677					1,071,848
Vacancy Savings				(211,959)					(212,721)
Inflation/Deflation				20,084					21,472
Fixed Costs				(189,037)					(183,908)
Total Statewide Present Law Adjustments				\$671,765					\$696,691
DP 2005 - Increase Waste Reduction & Recycling									
0.00	0	35,000	0	35,000	0.00	0	35,000	0	35,000
DP 2009 - Wetland Pilot Project FTE									
1.00	18,100	0	54,301	72,401	1.00	17,537	0	52,611	70,148
DP 2010 - PPA Operating Adjustment									
0.00	314,983	324,611	1,262,087	1,901,681	0.00	312,293	322,669	1,294,469	1,929,431
DP 2013 - State Building Energy Conservation FTE									
1.00	80,103	0	0	80,103	1.00	79,814	0	0	79,814
Total Other Present Law Adjustments									
2.00	\$413,186	\$359,611	\$1,316,388	\$2,089,185	2.00	\$409,644	\$357,669	\$1,347,080	\$2,114,393
Grand Total All Present Law Adjustments				\$2,760,950					\$2,811,084

LFD COMMENT**Personal Services Adjustments**

The components driving the personal services adjustment are about \$900,000 for vacancies in the base year and \$413,578 for non-legislative pay adjustments. The remainder is attributable to annualization of the previous pay plan, longevity adjustments, and an increase to employer paid health insurance premiums. The non-legislative pay increases are attributable to market adjustments for environmental and administrative positions in the department wide pay initiative. Please see agency issues for a full description of the issue.

DP 2005 - Increase Waste Reduction & Recycling - The executive is requesting \$35,000 per year of solid waste management fees for increased operating expenses. This would allow the division to expand waste reduction and recycling efforts, including regional events to improve efficiency and reduce costs to local programs, increased education to consumers and local program operators, recycling technologies demonstration and market development for recycled materials to be used locally. This adjustment would increase the base budget for the program to \$120,000 per year.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The Montana Integrated Waste Management Act (75-10-838, MCA) establishes targets to increase the amount of material that is recycled and composted. Those targets are 17 percent of the waste stream by 2008 and 19 percent by 2011, as compared to a current rate of about 15 percent. An increased effort is needed to reach these targets.

Goal: To increase the amount of material that is recycled or composted in Montana by developing local markets for recycled goods, demonstrating technologies for recycling and composting, providing opportunities for local programs to participate in regional or statewide initiatives, and educating consumers.

Performance Criteria: The department will meet its goals by increasing the number of opportunities to recycle, expanding the type of goods that can be recycled, providing regional or statewide opportunities to increase efficiency, and educating consumers. Services offered will be increased over 2006 in the following ways:

- Coordinating two regional hazardous waste collection events
- Coordinating five electronics recycling events
- Developing new markets for one recycled product within the state
- Developing and distributing educational materials on waste reduction and composting that can be used statewide or tailored for local communities.

Results will be collected and analyzed following each event and will be reported annually including the amount and type of materials recycled, number and type of events held, and educational materials produced.

Milestones:

- Regional hazardous waste events – 2007
- Electronic waste recycling events—3 in 2007, 2 in 2008
- New market for recycled product—2008
- Educational materials – 1 in 2007 and 1 in 2008

FTE: No additional FTE are being requested. Existing staff in the Air, Energy and Pollution Prevention Bureau will complete the work. No other work will be forgone in the process.

Funding: The funding source would be a \$35,000 annual appropriation from existing solid waste fees.

Obstacles: The rural nature of Montana, size of waste streams and distance to major market centers creates a challenge for collecting and processing goods to be recycled and natural materials to be composted.

Risk: The lack of additional operating expenses for this program activity can compromise the ability of the Department to meet waste reduction targets mandated by the Montana Integrated Waste Management Act.

**LFD
ISSUE**

Incomplete Plan

The Montana Integrated Waste Management Act dictates to the department the amount of material to be recycled or composted by FY 2008 and 2011. The department is seeking to increase the effort in order to achieve the statutory goal of 17 percent of the waste stream. The information provided articulates the goal, but fails to provide significant information to determine the return on investments. Two areas are weak: performance criteria and milestones

Performance criteria

The criteria as written are coordinated with the goal. However, the criteria are not specific, measurable, accountable, reportable, and time bound. The performance criteria should provide the legislature with an idea of who is responsible to do what by when and be able to have the data to substantiate it.

Vague Milestones

The milestones are too vague to determine when major accomplishments will be achieved. This may demonstrate a lack of planning and coordination. The milestones should be clear and coordinated to allow the legislature to “see” what should be accomplished by the end of the biennium.

Options

To address the weaknesses in the proposal, the legislature may wish to:

- Obtain from the department clear performance criteria and milestones prior to deliberations
- Approve the decision package and establish the performance criteria and require performance reporting by requesting a companion bill or in HB 2

DP 2009 - Wetland Pilot Project FTE - The department received a three-year wetland demonstration program pilot grant to develop two different assessment tools to track wetland gains and losses. At the end of the three years the department will be able to quantify gains and losses and report comparisons between the two approaches for three target areas in the state. The executive requests one additional Water Quality Specialist position to complete the work.

**LFD
COMMENT**

The 2005 legislature provided appropriations for this grant. However, the department did not request an FTE at that time. During the interim, the department obtained authority for a modified FTE through the Governor's budget office. This proposal would restore the base operating costs and provide funding for 1.00 FTE in the base.

DP 2010 - PPA Operating Adjustment - The executive requests to restore base operating expenses and delayed contracted services due to personnel vacancies. The Planning Division had 19 positions that were vacant from some period of time during the 2007 biennium. The majority of the request is for contracted services to cover delayed contracts, travel expenses and department indirect charges.

**LFD
COMMENT**

See the personal services issue in the agency discussion for more information.

DP 2013 - State Building Energy Conservation FTE - The executive recommends 1.00 FTE and approximately \$80,000 general fund each year of the biennium to provide dedicated staff for the State Building Energy Conservation Program. The current program is staffed on an ad-hoc basis from other positions within the division. Due to the success of the program and the increased demand due to high energy costs and increased potential savings, a permanent full-time position for the program is necessary.

New Proposals

New Proposals										
Program	FTE	Fiscal 2008				FTE	Fiscal 2009			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 2001 - Annual Maint for Relational Database Mgt System IT										
20	0.00	30,000	0	0	30,000	0.00	30,000	0	0	30,000
DP 2006 - Restore Energy Planning Functions										
20	2.00	160,641	0	0	160,641	2.00	165,922	0	0	165,922
DP 2007 - Biofuels Testing - OTO										
20	0.00	250,000	0	0	250,000	0.00	0	0	0	0
Total	2.00	\$440,641	\$0	\$0	\$440,641	2.00	\$195,922	\$0	\$0	\$195,922

DP 2001 - Annual Maint for Relational Database Mgt System IT - The Water Quality Assessment, Reporting, and Documentation System (WARD) is the relational database developed to meet requirements of the consent decree and settlement agreement that ended the total maximum daily load (TMDL) litigation. This database is key to the assessment of impaired water bodies and the subsequent development of plans to address those impairments. The executive is requesting authority for annual software maintenance, upgrades and enhancements.

**LFD
COMMENT**

These maintenance costs were designated as one-time only in the 2007 biennial budget. According to state policy the maintenance needs of computer applications must be reflected in budget planning. The department anticipates ongoing maintenance needs.

DP 2006 - Restore Energy Planning Functions - The executive requests 2.00 FTE and general fund authority to re-establish the energy planning functions to the department. The positions would be used to provide statutorily required energy analysis and support for new challenges associated with the potential expansion of state and regional electrical energy transmissions.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity

Justification: Returning two FTE to the department in an energy planning function will partially restore Montana's capability to provide expert energy analysis and policy support to bear on the new challenges associated with a significant expansion of state and regional electric transmission infrastructure. This would aid in completing the statutorily required analysis of the economic need determination for new transmission and expansion projects and return specific petroleum policy expertise to the executive branch, which is needed both for energy emergency planning and to support the state's alternative and synthetic fuel initiatives.

Goal: To restore the department's ability to provide the expertise necessary to determine the need for new energy transmission capacity, and to provide policy support for the state's participation in regional and national energy dialogues, and the Governor's energy initiatives.

Performance Criteria: Progress on work will be reported to the Energy and Telecommunications Interim Committee and to the Governor's Office.

- Determinations of need under the Major Facility Siting Act (MFSA) will be completed by program staff for all new applications for major facilities within the statutorily required time frame
- Four meetings of the WGA's Western Interstate Energy Board (WIRB) and the associated Western Interconnect Regional Advisory Board (WIRAB) will be attended by program staff with reports prepared following each
- The state's energy emergency response plan will be reviewed and updated by December 2008
- Weekly meetings of the Governor's Coal to Liquids Task Force will be staffed
- Program staff will represent the executive branch in state utility planning efforts

Milestones:

- September 2007, April 2008, September 2008, April 2009 WIEB/WIRAB meetings will have substantive Montana participation
- October 2008, State Energy Emergency Plan updated
- Quarterly briefing updates for Energy and Telecommunications Interim Committee (ETIC), or less frequently at their request

FTE: Two FTE are being proposed. The FTE would be energy policy analysts able to focus on electricity, petroleum, natural gas, coal, energy efficiency and renewable energy issues.

Funding: Funding would be from the general fund.

Obstacles: None identified

Risk: The expected expansion applications must be reviewed and acted on by the executive branch within nine months of application. Absent restoring of the executive agencies ability to respond to applications, the state will be unable to meet its statutory obligations.

**LFD
ISSUE****Implementation Issues**

There are a number of issues with this proposal:

1. The type of FTE being requested
2. Oversight of the process by the Energy and Telecommunications Interim Committee (ETIC)
3. General fund request
4. Coordination with PL 5012 and NP 5013

FTE

The two requested FTE would provide multiple functions within the department: MFSA, energy planning, and energy advocacy and development efforts. This would require a broad base of expertise which may be difficult to recruit for. The positions are established as energy economists and are funded at just above the entry level.

Oversight

The oversight by the ETIC is a proposal by the department, not at the request of the interim committee. The legislature could require a quarterly report on the progress of MFSA applications and emergency energy functions. In doing this the legislature could adopt specific, measurable, accountable, reportable, and time bound performance criteria that would provide an indication of whether the department was meeting the stated goal. This requirement could be made in HB2 language or through a companion bill.

General Fund

The request for general fund may not be appropriate as the activities of the positions include MFSA analysis. The MFSA fee is required by statute to be collected for the purpose of funding the department's cost of processing the MFSA certification. The fee must be collected at the time of filing. The issue for the legislature is to determine if the MFSA activities of this proposal warrant financial participation from the filing fee.

Consideration

The executive budget also includes increased appropriation authority for MFSA activities in the Permitting and Compliance Division. The PL 5012 proposal re-establishes base authority for MFSA expenditures and NP 5013 requests an additional FTE for increased MFSA activities. The MFSA activities should therefore be considered as a whole.

In summary, given the issues raised, the legislature has a number of options available, including:

- o Examine all MFSA packages at the same time to determine overall impact
- o Require reporting on the recruitment of the FTE. If the department is unable to recruit qualified applicants based on salary, provide additional authority to increase the salaries of the 2.00 FTE via a companion bill
- o Require quarterly reports to the ETIC based legislatively determined performance criteria through HB 2 language or a companion bill
- o Fund the decision package with a combination of general fund and MFSA filing fees
- o Make no changes

DP 2007 - Biofuels Testing - OTO - The executive requests a \$250,000 one-time-only biennial general fund appropriation to purchase equipment to test Montana-produced biofuels to ensure they meet national standards. This would allow the biofuels to be sold on the national market.

Language

"The department is authorized to decrease federal special revenue in the water pollution control and/or drinking water revolving loan programs, and to increase state special revenue by a like amount within the special administration account when the amount of federal capitalization funds have been expended or federal funds and bond proceeds will be used for other program purposes."

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	14.00	1.00	0.00	15.00	1.00	0.00	15.00	15.00
Personal Services	706,737	136,485	0	843,222	139,216	0	845,953	1,689,175
Operating Expenses	308,921	26,828	0	335,749	14,044	0	322,965	658,714
Total Costs	\$1,015,658	\$163,313	\$0	\$1,178,971	\$153,260	\$0	\$1,168,918	\$2,347,889
General Fund	404,184	109,997	0	514,181	100,663	0	504,847	1,019,028
State/Other Special	251,636	98,605	0	350,241	98,228	0	349,864	700,105
Federal Special	359,838	(45,289)	0	314,549	(45,631)	0	314,207	628,756
Total Funds	\$1,015,658	\$163,313	\$0	\$1,178,971	\$153,260	\$0	\$1,168,918	\$2,347,889

Program Description

The Enforcement Division is the central control for activities designed to facilitate the enforcement of the statutes and regulations administered by the department. The division develops department enforcement policies and procedures for approval by the director and ensures they are implemented in a consistent manner across the department. A citizen complaint clearinghouse and information tracking system is maintained by the division. The division coordinates the legal and technical aspects of enforcement cases, both administrative and judicial, and monitors violators to determine compliance with department orders.

Program Highlights

Enforcement Division	
Major Program Highlights	
♦	1.00 FTE is requested to assist in meeting statutory guidelines for complaint resolution and issuing of orders
Major LFD Issues	
♦	The status of meeting statutory guidelines for complaint resolution and issuing of orders could not be determined

Funding

The division is funded with general fund and a variety of state special and federal revenue sources. The division's primary state special revenue funds are the fees collected for air, asbestos control, and discharge permits, as well as subdivision review fees. The largest percentage of federal funds is provided through the Environmental Protection Agency (EPA) programs, predominantly the performance partnership grant.

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Enforcement Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 404,184	39.8%	\$ 514,181	43.6%	\$ 504,847	43.2%
01100 General Fund	404,184	39.8%	514,181	43.6%	504,847	43.2%
02000 Total State Special Funds	251,636	24.8%	350,241	29.7%	349,864	29.9%
02075 Ust Leak Prevention Program	74,234	7.3%	54,095	4.6%	54,037	4.6%
02201 Air Quality-Operating Fees	74,812	7.4%	49,137	4.2%	49,085	4.2%
02202 Asbestos Control	-	-	36,357	3.1%	36,318	3.1%
02204 Public Drinking Water	41,980	4.1%	107,088	9.1%	106,973	9.2%
02278 Mpdcs Permit Program	34,686	3.4%	40,324	3.4%	40,279	3.4%
02418 Subdivision Plat Review	-	-	31,840	2.7%	31,806	2.7%
02458 Reclamation & Development	4,720	0.5%	4,407	0.4%	4,403	0.4%
02845 Junk Vehicle Disposal	21,204	2.1%	26,993	2.3%	26,963	2.3%
03000 Total Federal Special Funds	359,838	35.4%	314,549	26.7%	314,207	26.9%
03067 Dsl Federal Reclamation Grant	17,975	1.8%	10,467	0.9%	10,455	0.9%
03228 L.U.S.T./Trust	22,937	2.3%	34,485	2.9%	34,447	2.9%
03262 Epa Ppg	-	-	219,908	18.7%	219,669	18.8%
03433 Epa Perf Partnership Fy04-05	263,583	26.0%	-	-	-	-
03436 Nps 04 Staffing & Support	-	-	-	-	49,636	4.2%
03691 Nps Staffing/Support	55,343	5.4%	49,689	4.2%	-	-
Grand Total	\$ 1,015,658	100.0%	\$ 1,178,971	100.0%	\$ 1,168,918	100.0%

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2008						Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					120,016					122,821
Vacancy Savings					(33,070)					(33,182)
Inflation/Deflation					4,894					5,187
Fixed Costs					(27,376)					(26,579)
Total Statewide Present Law Adjustments					\$64,464					\$68,247
DP 3001 - Enforcement Operations Adjustments										
	0.00	8,574	6,872	6,173	21,619	0.00	6,601	5,292	4,752	16,645
DP 3002 - Enforcement Division New FTE										
	1.00	77,230	0	0	77,230	1.00	68,368	0	0	68,368
Total Other Present Law Adjustments										
	1.00	\$85,804	\$6,872	\$6,173	\$98,849	1.00	\$74,969	\$5,292	\$4,752	\$85,013
Grand Total All Present Law Adjustments					\$163,313					\$153,260

LFD COMMENT

Personal Services Adjustments

The components driving the personal services adjustment are about \$123,000 for vacancies in the base year and about \$32,800 in non-legislative pay adjustments. The remainder is attributable to annualization of the previous pay plan, longevity adjustments, and increase to employer paid health insurance premiums. The market adjustments were provided as part of the department wide pay initiative. Please see agency issues for a full description of the issue.

DP 3001 - Enforcement Operations Adjustments – The Governor requests additional base authority for operating expenses such as lab analysis, in-state travel and agency indirect payments. The indirect increase is due to the proposed change in the indirect calculations. The other adjustments relate to increased costs associated with program activities.

DP 3002 - Enforcement Division New FTE - The Governor is requesting an additional environmental enforcement specialist position to address violations and citizen complaints within statutory guidelines.

**LFD
ISSUE****Questionable Data**

The division does not always achieve the goals of closing citizen complaints within 90 days and issuing orders within 120 days. The availability of specific statistics regarding this work is questionable. The LFD asked the department the following questions and received the following summarized answers:

- What is the average response time to citizen complaints?
- The goal is to resolve citizen complaints within 90 days, but it is difficult to generalize with averages. On the average the division has been able to resolve complaints within 60-90 days.
- What is the average time to issue an order?
- The goal is to issue orders within 120 days as memorialized in an enforcement agreement with the Environmental Protection Agency (EPA). On average orders are released within 100- 120 days

The answers indicate that current workload is being completed within time frames, but are relative guesstimates as the department did not provide actual statistics. An increase in workload could change the relative averages. As such, the department has indicated there has been increased pressure from the EPA to address the enforcement backlog in the Public Water Supply program. The issue is whether the additional position is warranted. The legislature may wish to:

- Obtain definitive information regarding the “back-log” of enforcement action related to the Public Water Supply Program prior to deliberations
- Require the department to establish and manage performance criteria that clearly demonstrate the progress toward statutory time frames
- Disapprove the package as statutory time frames appear to be met

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	61.76	0.00	0.00	61.76	0.00	0.00	61.76	61.76
Personal Services	2,847,299	617,299	0	3,464,598	628,959	0	3,476,258	6,940,856
Operating Expenses	7,983,127	3,687,811	0	11,670,938	3,716,667	0	11,699,794	23,370,732
Equipment	5,831	(5,831)	0	0	(5,831)	0	0	0
Benefits & Claims	0	2,050,000	0	2,050,000	2,050,000	0	2,050,000	4,100,000
Debt Service	1,807	0	0	1,807	0	0	1,807	3,614
Total Costs	\$10,838,064	\$6,349,279	\$0	\$17,187,343	\$6,389,795	\$0	\$17,227,859	\$34,415,202
General Fund	0	1,000,000	0	1,000,000	1,000,000	0	1,000,000	2,000,000
State/Other Special	3,472,724	3,797,851	0	7,270,575	3,797,932	0	7,270,656	14,541,231
Federal Special	7,365,340	1,551,428	0	8,916,768	1,591,863	0	8,957,203	17,873,971
Total Funds	\$10,838,064	\$6,349,279	\$0	\$17,187,343	\$6,389,795	\$0	\$17,227,859	\$34,415,202

Program Description

The Remediation Division protects human health and the environment by preventing exposure to hazardous substances that have been released to soil, sediment, surface water, or groundwater. The division also ensures compliance with state and federal regulations. The division's responsibilities include: oversight, investigation, and cleanup activities at state and federal Superfund sites, and voluntary cleanup activities; reclamation of abandoned mine lands; implementation of corrective actions at sites with leaking underground storage tanks; and oversight of groundwater remediation at sites where improper placement of wastes has caused groundwater contamination. This division is divided into two bureaus:

19. The Hazardous Waste Site Cleanup Bureau (HWSCB) oversees or conducts the investigation and cleanup of sites contaminated by chemical spills, hazardous substances, and petroleum released by industrial and commercial operations other than mining. The bureau works with the Petroleum Tank Release Compensation Board for eligibility and reimbursement determinations and provides grants to local governments for compliance assistance.
20. The Mine Waste Cleanup Bureau (MWCB) is responsible for administering and overseeing remedial actions at historical mine sites, abandoned mines, ore-transport, and processing facilities. It also oversees the provisions of the federal Comprehensive Environmental Response and Liability Act (CERCLA or federal Superfund Program).

Program Highlights

Remediation Division Major Program Highlights	
♦	The executive is requesting \$4.0 million of orphan share funding over the biennium to cover the cost of clean up when responsible parties are bankrupt or otherwise insolvent
♦	\$ 2.7 million per year in bond proceeds would be used to cover the state's share of costs at various Superfund sites
♦	\$2.0 million of general fund is proposed to accelerate remediation efforts of the upper Blackfoot mining complex where potentially liable parties are not fulfilling remediation obligations

Major LFD Issues

- ◆ The request for orphan share adds authority to the base budget for activities that may not occur
- ◆ The potentially liable parties can be compelled to reimburse the state for activities completed at the upper Blackfoot mining complex

Funding

The remediation division is funded with a mix of general fund, state special, and federal revenue sources. The division is requesting general fund for mine site clean up for the 2009 biennium. State special revenue comes from the \$.00075 gas tax for petroleum tank cleanup, registration fees for underground storage tanks, and interest proceeds from the resource indemnity trust deposited to the environmental quality protection, orphan share, and hazardous waste funds. Federal special revenue is derived from the federal Environmental Protection Agency (EPA) for Superfund oversight and various other activities, and the federal Office of Surface Mining for the Abandoned Mine Lands (AML) program.

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Remediation Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ -	-	\$ 1,000,000	5.8%	\$ 1,000,000	5.8%
01100 General Fund	-	-	1,000,000	5.8%	1,000,000	5.8%
02000 Total State Special Funds	3,472,724	32.0%	7,270,575	42.3%	7,270,656	42.2%
02006 Fy08 Go Cercla Bond Proceeds	-	-	2,700,000	15.7%	-	-
02058 Petroleum Storage Tank Cleanup	1,237,020	11.4%	1,400,329	8.1%	1,401,860	8.1%
02064 Fy09 Go Cercla Bond Proceeds	-	-	-	-	2,700,000	15.7%
02070 Hazardous Waste-Cercla	23,911	0.2%	28,966	0.2%	29,084	0.2%
02162 Environmental Quality Protecti	1,054,708	9.7%	749,374	4.4%	747,073	4.3%
02206 Agriculture Monitoring	24,488	0.2%	24,228	0.1%	24,257	0.1%
02438 Pegasus - Beal Mountain	-	-	95,000	0.6%	95,000	0.6%
02472 Orphan Share Fund	15,561	0.1%	2,067,503	12.0%	2,067,523	12.0%
02565 Lust Cost Recovery	110	0.0%	100,000	0.6%	100,000	0.6%
02775 Cercla Go Bonds	1,032,139	9.5%	-	-	-	-
02940 Pegasus - Basin	84,787	0.8%	105,175	0.6%	105,859	0.6%
03000 Total Federal Special Funds	7,365,340	68.0%	8,916,768	51.9%	8,957,203	52.0%
03158 Blm Interagency Agreement	-	-	100,000	0.6%	100,000	0.6%
03221 Osm Coal Outcrop Fires	32,614	0.3%	50,000	0.3%	50,000	0.3%
03222 Lockwood Superfund Site	112,551	1.0%	-	-	-	-
03228 L.U.S.T./Trust	719,437	6.6%	750,863	4.4%	751,742	4.4%
03257 Superfund Multi-Site	1,244,300	11.5%	-	-	-	-
03259 Superfund Multi Site	-	-	1,850,000	10.8%	1,850,000	10.7%
03262 Epa Ppg	-	-	104,147	0.6%	103,795	0.6%
03433 Epa Perf Partnership Fy04-05	104,453	1.0%	-	-	-	-
03438 Brownsfield State Response	564,864	5.2%	1,097,467	6.4%	1,099,765	6.4%
03447 Deq-Federal Aml03 Grant	4,270,265	39.4%	4,083,995	23.8%	4,119,750	23.9%
03463 Mine Lease/Reclamation	2,709	0.0%	130,000	0.8%	130,000	0.8%
03468 Core Cooperative Grant-Fy05	207,549	1.9%	251,312	1.5%	252,307	1.5%
03721 Libby Asbestos/Troy	106,598	1.0%	498,984	2.9%	499,844	2.9%
Grand Total	<u>\$ 10,838,064</u>	<u>100.0%</u>	<u>\$ 17,187,343</u>	<u>100.0%</u>	<u>\$ 17,227,859</u>	<u>100.0%</u>

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2008					Fiscal 2009					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				761,663						773,803
Vacancy Savings				(144,364)						(144,844)
Inflation/Deflation				17,680						18,868
Fixed Costs				(108,899)						(104,812)
Total Statewide Present Law Adjustments				\$526,080						\$543,015
DP 4001 - Remediation Operations Adjustment										
0.00	0	(352,039)	(136,396)	(488,435)	0.00	0	(357,047)	(107,805)	(464,852)	
DP 4002 - Bond Sale for state obligations at Superfund sites										
0.00	0	2,700,000	0	2,700,000	0.00	0	2,700,000	0	2,700,000	
DP 4003 - Hazardous Waste Cleanup Bureau LUST Trust BIE										
0.00	0	99,881	0	99,881	0.00	0	99,880	0	99,880	
DP 4004 - Mine Waste Cleanup Bureau Beal (BIEN)										
0.00	0	95,000	0	95,000	0.00	0	95,000	0	95,000	
DP 4006 - Mine Waste Cleanup Bureau Libby Troy (BIEN)										
0.00	0	0	366,753	366,753	0.00	0	0	366,752	366,752	
DP 4007 - Orphan Share Claims Payments (RST/BIEN)										
0.00	0	2,050,000	0	2,050,000	0.00	0	2,050,000	0	2,050,000	
DP 4008 - Accelerated Remediation Selected CECRA Sites OTO										
0.00	1,000,000	0	0	1,000,000	0.00	1,000,000	0	0	1,000,000	
Total Other Present Law Adjustments										
0.00	\$1,000,000	\$4,592,842	\$230,357	\$5,823,199	0.00	\$1,000,000	\$4,587,833	\$258,947	\$5,846,780	
Grand Total All Present Law Adjustments				\$6,349,279						\$6,389,795

LFD COMMENT

The components driving the personal services adjustment are about \$524,000 for vacancies in the base year and \$410,000 for non-legislative pay adjustments. The remainder is attributable to annualization of the previous pay plan, longevity adjustments, and increase to employer paid health insurance premiums. The market adjustments were provided as part of the department wide pay initiative. Please see agency issues for a full description of the issue.

DP 4001 - Remediation Operations Adjustment – The executive is requesting a base adjustment consisting of two parts: 1) an increase in operating expenses in relation to vacancies during the base year; and 2) a decrease in contracted services related to the adjustment in federal abandoned mine lands funding. The net effect is a decrease of approximately \$0.5 million over the biennium.

LFD COMMENT

The 2005 Legislature provided additional federal authority for the federal abandoned mine program as there were additional funds proposed to default to Montana under certain program re-authorization scenarios. Those scenarios did not occur. The net adjustment reflects the amount the department anticipates under the current authorization plan.

DP 4002 - Bond Sale for state obligations at Superfund sites - The executive recommends \$5.4 million state special revenue over the 2009 biennium to spend bond proceeds from CERCLA bonds sold under the authority of 75-10-623, MCA. This would allow expenditures for state obligations at 10-Mile, Libby, East Helena, and Carpenter Snow Creek.

**LFD
COMMENT**

Fund-lead sites are sites for which there is no responsible party. Under federal Superfund law, the state is required to provide a 10 percent match to any federal funds used at fund-lead sites to achieve cleanup. The state is also required to fund 100 percent of long-term operations and maintenance costs, should there be any. Bond sales occur at specific points in time during the Superfund process. The department anticipates the earliest bond sale as the fall of 2008.

DP 4003 - Hazardous Waste Cleanup Bureau LUST Trust (BIE) - The executive requests a \$199,761 state special revenue biennial appropriation for the department's Petroleum Release Section. The department is required to recover federal grant funds expended in the cleanup of contamination from certain federally defined tanks. Under leaking underground storage tank (LUST) federal law, any state-recovered monies must continue to be used for cleanup of other sites also meeting federal LUST site criteria.

DP 4004 - Mine Waste Cleanup Bureau Beal (BIEN) - The executive recommends \$95,000 state special revenue each year of the 2009 biennium to expend the remaining funds that the department recovered from its bond forfeiture action of the Pegasus Beal Mountain mine for post-bankruptcy management of the mine site.

**LFD
COMMENT**

These funds will be expended when the department and USFS negotiations for post-bankruptcy management of the former Pegasus Beal Mountain mine site are complete. The department has proposed to the USFS that in exchange for a release of future obligations at this site, the department would provide to the USFS the remaining reclamation bond funds and all property acquired in the process. The USFS has not provided a timeline to respond to this proposal.

DP 4006 - Mine Waste Cleanup Bureau Libby Troy (BIEN) - The executive recommends \$733,505 in biennial federal special revenue for additional investigation and remediation planning at the Libby Troy Asbestos site. The grant provides for the department to take the role of the lead regulatory agency at this site.

**LFD
COMMENT**

The lead regulatory agency is the entity that manages the investigation activities of the site. This does not increase nor decrease the potential financial obligation of the state for remediation activities.

DP 4007 - Orphan Share Claims Payments (RST/BIEN) - The executive requests \$2.05 million state special revenue each year of the biennium to reimburse remedial action costs claimed for the orphan's share of eligible remedial action costs for contaminated sites and to defend the liability allocation process in these cleanups. There are two petitions for liability allocation, one for the CMC Asbestos facility in Bozeman and one for the Joslyn Tailings facility in Helena. A third potential request is the S&W Sawmill facility in Darby.

**LFD
ISSUE****Historic Request**

The legislature has approved similar amounts for the same facilities for the last three biennia and payments for claims have not been made. If approved, the legislature may wish to condition the appropriation as one-time only.

**LFD
COMMENT**

The 2005 Legislature approved a resolution to study the Resource Indemnity Trust funds and related accounts to resolve issues regarding fund utilization, cross competition, and statutory clarity. The study was completed by a subcommittee of the Legislative Finance Committee. The recommendations of the sub-committee included activities related to the orphan share fund. The recommendations and related activities are:

- A request to the Legislative Audit Committee to subject the orphan share program to a performance audit to determine why the program is not processing claim payments
- The performance audit will not be completed in time for legislative deliberations
- Eliminating the groundwater revenues to the orphan share fund as they have been historically diverted to the hazardous waste fund and the environmental quality protection fund
- LC 0147 addresses changes to the orphan share fund. The change will not affect the current fund balance, therefore adequate funding is available for this decision package.

DP 4008 - Accelerated Remediation Selected CECRA Sites OTO - The executive requests \$2 million in general fund authority for contracted services at the Upper Blackfoot Mining Complex (UBMC) facility, a state Superfund site to conduct remedial investigation and subsequent cleanup activities to address contaminants affecting human health and the environment. The expenditures at these sites are cost recoverable from the potentially liable parties; ASARCO and ARCO.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The department will use the requested funding and spending authority to conduct various phases of investigation and cleanup work at the Upper Blackfoot Mining Complex where the potentially liable persons are not accomplishing the necessary work in a proper and expeditious manner.

Goal: To conduct the remedial investigations needed to fill previously identified data gaps so that the nature and extent of the contamination at the facility can be determined.

Performance Criteria: At the Upper Blackfoot Mining Complex, progress will be measured by the completion of the remedial investigation work plan, field work, and remedial investigation report. Contract task orders include specific reporting and financial requirements that will be overseen by department staff. Department staff will also review draft contractor work products and provide necessary additional guidance for completion.

Milestones: Major milestones at the Upper Blackfoot Mining Complex include:

- December 2007 – completion of the remedial investigation work plan.
- September 2008 – completion of field work.
- January 2009 – completion of remedial investigation report.

FTE: Existing department staff will continue to provide oversight and technical expertise and contractor services will be used to assist with technical and field work.

Obstacles: Obstacles at the Upper Blackfoot Mining Complex include:

- Uncertainty regarding the outcome of the Asarco bankruptcy.
- Potentially liable persons are unwilling to properly complete work
- An impact to USFS lands –The department and the USFS have developed a working group to share information, avoid duplication, and develop approaches to address contamination on public and private lands concurrently where possible and in a logical fashion.

Risk: The Department is currently in litigation with potentially liable persons and until that litigation is resolved, no remedial investigation will be completed. Providing cost recoverable funding to complete the work would allow the department to move the facility closer to final cleanup and may help expedite resolution of the litigation.

**LFD
ISSUE****Setting Precedence With General Fund**

Funding is not addressed in the additional information. Remediation at state Superfund sites has historically been paid for with funds from the environmental quality protection fund (EQPF). This fund receives limited revenues from the Resource Indemnity Trust interest and cost recoveries from potential responsible parties, and has been supplemented by transfers from the orphan share. (See Resource Indemnity Trust write up in the agency section of the Department of Natural Resources and Conservation.) The EQPF is not in a stable financial position to take on the cost of this activity and, the financial solvency of ASARCO is in question, therefore the executive is requesting general fund. However, this appropriation would set a new precedent for use of these funds. Montana currently has 210 state Superfund sites.

The issue for the legislature is whether the general fund should be used for the purpose of remediation a state Superfund site. As proposed, the department would utilize general fund to remediate this site and attempt cost recovery from the potentially liable parties and deposit any such recovery back to the fund. The general fund then becomes the revolving fund for state Superfund activities, rather than the EQPF. If this would occur, the state benefits, but the most affected citizens would be those within the immediate clean up area.

The legislature has the ability to examine possibilities, including:

- Increase statutory allocations of RIT interest to the EQPF to provide enough operating revenues to appropriate the authority from EQPF
- Transfer \$2.0 million of general fund to the EQPF to establish a fund balance that could cover the requested appropriation authority. Language in HB 2 could be utilized to transfer the funding and the appropriation could be established in a line item from the EQPF for this specific purpose. Any cost recovery could be deposited to the EQPF.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
Budget Item								
FTE	181.45	6.00	6.50	193.95	6.00	6.50	193.95	193.95
Personal Services	8,938,144	1,587,391	364,956	10,890,491	1,617,755	365,268	10,921,167	21,811,658
Operating Expenses	6,176,660	4,779,602	697,451	11,653,713	4,773,086	177,948	11,127,694	22,781,407
Equipment	18,791	0	0	18,791	0	0	18,791	37,582
Grants	1,637,948	357,000	0	1,994,948	385,000	0	2,022,948	4,017,896
Total Costs	\$16,771,543	\$6,723,993	\$1,062,407	\$24,557,943	\$6,775,841	\$543,216	\$24,090,600	\$48,648,543
General Fund	905,066	118,675	573,927	1,597,668	119,945	73,982	1,098,993	2,696,661
State/Other Special	11,230,333	4,562,884	238,095	16,031,312	4,592,732	231,107	16,054,172	32,085,484
Federal Special	4,636,144	2,042,434	250,385	6,928,963	2,063,164	238,127	6,937,435	13,866,398
Expendable Trust	0	0	0	0	0	0	0	0
Total Funds	\$16,771,543	\$6,723,993	\$1,062,407	\$24,557,943	\$6,775,841	\$543,216	\$24,090,600	\$48,648,543

Program Description

The Permitting and Compliance Division administers all DEQ permitting and compliance activities based on 25 state regulatory and 5 related federal authorities. The division:

- 1) Reviews and assesses environmental permit applications (coordinating with other state, local, and federal agencies) to determine control measures needed to ensure compliance with the law and to prevent land, water, and air conditions detrimental to public health welfare, safety and the environment;
- 2) Prepares supporting environmental documents under the Montana Environmental Policy Act and provides training and technical assistance when needed;
- 3) Inspects to determine compliance with permit conditions, laws, and rules; and
- 4) Provides assistance to resolve the facility's compliance issues, and when necessary recommends formal enforcement actions to the Enforcement Division.

Activities are organized in the Air Resources Management Bureau (air); Industrial and Energy Minerals Bureau (coal, uranium, opencut); Environmental Management Bureau (hard rock, facility siting); Public Water and Subdivision Bureau (public water supply and subdivision); Water Protection Bureau (water discharge); and Waste and Underground Tank Management Bureau (solid waste, junk vehicles, septage pumpers, hazardous waste, asbestos, underground storage tanks).

Program Highlights

Permitting and Compliance Division
Major Program Highlights
<div>◆ The division has requested 3.00 FTE and \$1.4 million in state special revenue authority to improve the air quality program</div> <div>◆ 5.00 FTE are requested to convert modified positions to permanent positions</div> <div>◆ Two proposals for waste water certification are to address testing materials</div> <div>◆ Resources for air and water quality issues related to coal bed methane development are being requested.</div> <div>◆ Base adjustments can be tied to vacancies in the base year</div>
Major LFD Issues
<div>◆ The proposed air quality adjustments will require an increase in air permitting fees</div> <div>◆ The division has difficulties recruiting and retaining qualified environmental scientists</div> <div>◆ Performance reporting would be beneficial to track progress on timeliness of permitting and approving activities</div>

Funding

The division is funded with general fund and a variety of state and federal special revenue sources. The general fund provides 4.5 percent of the total funding and supports operating expenses.

State special revenue consists of forfeited hard rock reclamation bonds, and fees collected for various activities such as air permits, junk vehicle fines, public water supply connections, and subdivision reviews. These funds are used to administer related permits and compliance operations in the division. The division also receives Resource Indemnity Trust (RIT) interest via the reclamation and development account.

Federal special revenue sources include the Environmental Protection Agency (EPA), and the Bureau of Land Management (BLM). Federal funds are directed toward specific sites or for primacy costs of the permitting programs.

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

		Permitting & Compliance					
Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000	Total General Fund	\$ 905,066	5.4%	\$ 1,597,668	6.5%	\$ 1,098,993	4.6%
	01100 General Fund	905,066	5.4%	1,597,668	6.5%	1,098,993	4.6%
02000	Total State Special Funds	11,230,333	67.0%	16,031,312	65.3%	16,054,172	66.6%
	02054 Ust-Installer Lic & Permit Acc	79,768	0.5%	52,942	0.2%	55,874	0.2%
	02070 Hazardous Waste-Cercla	394,145	2.4%	397,922	1.6%	395,031	1.6%
	02075 Ust Leak Prevention Program	276,497	1.6%	386,781	1.6%	384,062	1.6%
	02095 Pegasus Reclamation/Zortman	37,500	0.2%	-	-	-	-
	02096 Reclamation - Bond Forfeitures	23,393	0.1%	222,938	0.9%	250,000	1.0%
	02130 Zort/Land Exploration Bond For	9,982	0.1%	-	-	-	-
	02157 Solid Waste Management Fee	561,359	3.3%	569,106	2.3%	568,911	2.4%
	02201 Air Quality-Operating Fees	2,256,037	13.5%	3,571,340	14.5%	3,562,514	14.8%
	02202 Asbestos Control	158,265	0.9%	210,831	0.9%	215,738	0.9%
	02204 Public Drinking Water	667,263	4.0%	807,498	3.3%	807,558	3.4%
	02276 Pegasus Reclamation/Zort-Land	19,700	0.1%	-	-	-	-
	02278 Mpdcs Permit Program	1,269,176	7.6%	1,607,770	6.5%	1,601,907	6.6%
	02418 Subdivision Plat Review	1,068,815	6.4%	1,694,329	6.9%	1,679,414	7.0%
	02420 Bd Of Cert For W&W Op	84,776	0.5%	102,754	0.4%	106,425	0.4%
	02421 Hazardous Waste Fees	51,883	0.3%	51,220	0.2%	50,968	0.2%
	02428 Major Facility Siting	101,080	0.6%	591,576	2.4%	592,857	2.5%
	02458 Reclamation & Development	1,570,512	9.4%	1,662,458	6.8%	1,665,690	6.9%
	02521 Pegasus Bankruptcy/Operations	832,143	5.0%	750,000	3.1%	750,000	3.1%
	02754 Opencut Mining Fees	-	-	7,682	0.0%	7,995	0.0%
	02845 Junk Vehicle Disposal	1,743,218	10.4%	2,001,909	8.2%	2,031,427	8.4%
	02947 Zortman/Landusky Nitrate System	9,046	0.1%	27,062	0.1%	-	-
	02954 Septage Fees	15,775	0.1%	27,694	0.1%	27,801	0.1%
	02988 Hard Rock Mining Reclamation	-	-	1,287,500	5.2%	1,300,000	5.4%
03000	Total Federal Special Funds	4,636,144	27.6%	6,928,963	28.2%	6,937,435	28.8%
	03014 Dw Srf Ffy05 Grant	361,957	2.2%	891,985	3.6%	891,228	3.7%
	03040 Operator Training Reimbursement	159,475	1.0%	284,734	1.2%	286,190	1.2%
	03067 Dsl Federal Reclamation Grant	1,014,170	6.0%	1,157,854	4.7%	1,158,063	4.8%
	03071 Us Forest Service Agreement	1,392	0.0%	20,600	0.1%	20,800	0.1%
	03262 Epa Ppg	-	-	2,621,710	10.7%	2,633,165	10.9%
	03326 Blm For Zortman & Landusky	45,344	0.3%	1,266,900	5.2%	1,279,200	5.3%
	03433 Epa Perf Partnership Fy04-05	2,641,965	15.8%	-	-	-	-
	03435 Pm 2.5 Fiscal Year 2004	6,067	0.0%	13,520	0.1%	13,576	0.1%
	03436 Nps 04 Staffing & Support	-	-	-	-	99,166	0.4%
	03438 Brownsfield State Response	35,607	0.2%	160,284	0.7%	159,297	0.7%
	03440 Dw Srf 03	185,367	1.1%	-	-	-	-
	03442 Dw Srf 03	44,554	0.3%	-	-	-	-
	03480 Blm Cbm Agreement	-	-	360,597	1.5%	345,093	1.4%
	03691 Nps Staffing/Support	97,610	0.6%	98,804	0.4%	-	-
	03798 Homeland Water System Security	42,636	0.3%	51,975	0.2%	51,657	0.2%
08000	Total	-	-	-	-	-	-
	08166 Rhodia Restitution Fund	-	-	-	-	-	-
	Grand Total	\$ 16,771,543	100.0%	\$ 24,557,943	100.0%	\$ 24,090,600	100.0%

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2008						Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				1,684,099						1,715,395
Vacancy Savings				(424,894)						(426,137)
Inflation/Deflation				40,217						43,234
Fixed Costs				(324,343)						(314,596)
Total Statewide Present Law Adjustments				\$975,079						\$1,017,896
DP 5001 - Oil & Gas Well Registration FTE	3.00	0	183,451	103,320	286,771	3.00	0	176,569	99,774	276,343
DP 5002 - Permitting Major Sources of Air Pollution FTE	1.00	0	75,076	0	75,076	1.00	0	71,922	0	71,922
DP 5003 - Air Online Compliance Reporting-RST/OTO/BIE	0.00	0	77,250	0	77,250	0.00	0	78,000	0	78,000
DP 5005 - Air Pollutant Emission Tracking	1.00	0	75,076	0	75,076	1.00	0	71,922	0	71,922
DP 5006 - Air Resources Bureau Relocation-RST/OTO/BIE	0.00	13,390	53,560	0	66,950	0.00	13,520	54,080	0	67,600
DP 5009 - PCD Vehicles Owned and Leased	0.00	2,727	24,875	10,565	38,167	0.00	3,026	26,511	11,098	40,635
DP 5011 - Aerial Reconnaissance in Coal Mine Inspection	0.00	0	7,725	0	7,725	0.00	0	7,800	0	7,800
DP 5012 - Hard Rock & MFSA Projects-RST/BIE	0.00	0	1,820,367	1,240,764	3,061,131	0.00	0	1,837,867	1,253,264	3,091,131
DP 5015 - Industrial Wastewater Operator Cert BIE/OTO	0.00	0	33,438	0	33,438	0.00	0	33,750	0	33,750
DP 5016 - High Strength Wastewater Standards BIE/OTO	0.00	0	30,900	0	30,900	0.00	0	31,200	0	31,200
DP 5017 - Subdivision Training IT	0.00	0	51,500	0	51,500	0.00	0	52,000	0	52,000
DP 5018 - Public Water Supply - Kalispell FTE	1.00	0	40,239	40,239	80,478	1.00	0	38,765	38,765	77,530
DP 5019 - Subdivision Grants to Counties	0.00	0	243,000	0	243,000	0.00	0	243,000	0	243,000
DP 5024 - Brownsfields Grant BIEN	0.00	0	0	119,600	119,600	0.00	0	0	118,450	118,450
DP 5026 - Permitting & Compliance Division Base Adjustments	0.00	58,878	832,694	270,380	1,161,952	0.00	57,723	827,802	267,937	1,153,462
DP 5027 - On-site Wastewater Operator Certification OTO/BIE	0.00	0	82,400	0	82,400	0.00	0	83,200	0	83,200
DP 5028 - Air Regulatory Assistance RST/OTO/BIEN	0.00	0	257,500	0	257,500	0.00	0	260,000	0	260,000
Total Other Present Law Adjustments	6.00	\$74,995	\$3,889,051	\$1,784,868	\$5,748,914	6.00	\$74,269	\$3,894,388	\$1,789,288	\$5,757,945
Grand Total All Present Law Adjustments					\$6,723,993					\$6,775,841

LFD COMMENT

The components driving the biennial personal services adjustment are about \$1.5 million for vacancies in the base year and \$780,000 for non-legislative pay adjustments. The remainder is attributable to annualization of the previous pay plan, longevity adjustments, and increase to employer paid health insurance premiums. The non-legislative pay increases are attributable to market adjustments provided in the department wide pay initiative. Please see agency issues for a full description of the issue.

DP 5001 - Oil & Gas Well Registration FTE - The executive is requesting 3.0 additional FTE and state special and federal authority of approximately \$563,000 for the biennium to implement current regulatory requirements applicable to conventional oil and gas well facilities and to provide technical support to the Bureau of Land Management (BLM). The department anticipates increased new registrations or permit applications from oil and gas facilities and an increase in air quality permit applications.

Justification: The proposal for additional staff is needed because of the recent and dramatic increase in the number of oil and gas well facilities subject to the Montana and federal Clean Air Acts.

Goals: To issue currently required permits or registrations, provide compliance assistance, ensure compliance with all applicable air quality requirements, and protect public health through reduction of emissions of hazardous air pollutants.

Performance Criteria:

Performance criteria will include issuance of permits or registrations and compliance determinations.

- The department will issue 25 percent of the backlogged permits or registrations each fiscal year.
- The department will conduct compliance determinations on 15 percent of the permitted or registered facilities each fiscal year.

Milestones: The department is proposing to issue 25 percent of the existing permits/registrations per year. This will continue for a period of four years. Once the backlog has been eliminated the department will continue to issue any new source permits/registrations within the statutory timeframes, while conducting on-site inspections at about 15 percent of the facilities per year.

FTE: Three FTE have been requested. One FTE will be located in Miles City to provide technical support and assistance to the BLM. The other two FTE will be located in Helena. These FTE would handle the permitting and compliance activities associated with ensuring that conventional oil and gas well facilities are complying with the requirements of the Montana and federal Clean Air Acts. Recruitment would begin in July of 2007 and take up to 90 days to fill all positions.

Obstacles: The main challenge will be educating the regulated universe. The increase in activity associated with oil and gas development has occurred in the last several years, so many of these facilities are not familiar with the applicable environmental regulations.

Risk: Existing oil and gas well facilities would continue to operate without a permit and would be subject to enforcement action by EPA or a citizen's suit. The department would be in violation of the permitting requirements contained in the Montana Clean Air Act, and could be subject to a writ of mandamus, where a court would order the Department to issue the outstanding permits within a specific timeframe or be subject to sanctions. This would adversely affect issuance of permits for new facilities or processing of permit modifications for other existing facilities. This could potentially slow economic growth or create pressure for facilities to operate without a permit.

**LFD
ISSUE**

Incomplete Plan

As the result of legislation passed and approved during the 2005 session, operators of oil and gas wells are required to file an air quality application with the department by January 30, 2006 or 60 days after the completion of a well. The department received 430 such applications for permits. However, none of these applications have been reviewed to determine whether they are complete or "registration-eligible", or whether these facilities would need to obtain an air quality permit in lieu of registration. In addition, none of the necessary compliance verification activities associated with registration or permitting have been conducted for the facilities. The request for FTE is to eliminate this backlog over time and process new registrations within statutory guidelines. There are four issues for the legislature to consider:

21. The ability of the department to recruit three technical staff;
22. The lack of a clear goal and subsequent performance criteria;
23. The lack of clear milestones to provide a snapshot of activities over the biennium; and
24. Air quality permit fees will need to be adjusted.

**LFD
ISSUE
CONT.**Recruitment

The department anticipates hiring these positions within 90 days of the beginning of the fiscal year. The request for the Miles City position is a request to convert a modified FTE to permanent. The FTE was approved in conjunction with a budget amendment when the department received BLM funds for cooperative monitoring of air resources due to the expansion of coal bed methane. The department received approval for the FTE on July 7, 2006 and it has yet to be hired. The department has conducted two separate recruiting processes for the position. Both of these efforts have been unsuccessful because none of the candidates met the requirements of the department and BLM. This recruitment effort is currently on hold while the department and BLM evaluate options. The legislature may wish to obtain additional assurances that adequate recruitment efforts will occur in order to fill these positions.

Goals

The goal of this proposal does not accurately reflect the anticipated activities of the requested FTE. As proposed the FTE would review, process, and monitor compliance of air quality permits, but the performance criteria relates only to the reduction in backlog. The third FTE is to be working with the BLM; the goal of that position and subsequent performance criteria is not addressed. The goal does not provide a clear target to which all effort is being directed and is further complicated by the fact that the performance criteria do not provide adequate information for the legislature to determine if progress has been made.

Milestones

There are no measurable milestones to this project. Additional information provided by the department indicates that the two to be assigned to the permitting process will require "training sufficient to operate independently". There is no indication at what point of the biennium the department believes this will occur. The milestones do not provide a snapshot of major activities that should occur over the biennium.

Fees

The department's proposal does not address the source of funding. This package is dependent on air quality fees. The legislature does not establish the fees in statute. However, the amount the legislature appropriates from this source directly impacts the size of the fee adjustment. See the discussion on the Clean Air Act in the agency overview section for additional information.

In summary, the legislature may wish to:

- Obtain from the department a clear goal, related performance criteria, and milestones prior to deliberations
- Establish the goal, related performance criteria, and require performance reporting by requesting a companion bill or in language in HB 2

DP 5002 - Permitting Major Sources of Air Pollution FTE - The executive recommends an increase of 1.00 FTE and state special revenue of \$75,076 in FY 2008 and \$71,922 in FY 2009 for personal services and associated operating costs. Title V of the Federal Clean Air Act requires regulatory agencies to conduct detailed compliance evaluations to ensure companies are complying with all applicable air quality regulations, and to ensure that human health is being protected.

**LFD
ISSUE**Federal Requirements

Title V is the permitting requirements of the federal Clean Air Act. The act establishes the amount of pollutants that can be released in the air. States take the lead in carrying out the Clean Air Act, including establishing a permitting system and pledging adequate resources to meet the conditions of the act. If the Environmental Protection Agency determines the state is not doing an adequate job, the EPA can take over enforcing the Clean Air Act. The issue for the legislature is to determine what resources are required to do an adequate job, such as FTE.

**LFD
ISSUE
CONT.**

The department is seeking an additional FTE to compensate for increased workload under Title V. The department currently meets statutory permit time frames 33 percent of the time. The department indicates that recruiting for this position will occur as soon as it is approved, at the time HB 2 is passed and approved. The legislature may wish to obtain additional assurances that adequate recruitment and retention efforts are in place to maintain adequate staffing.

**LFD
COMMENT**

This decision package is dependent on air quality fees. The legislature does not establish the fees in statute. However, the amount the legislature appropriates from this source, directly impacts the size of the fee adjustment. See the discussion on the Clean Air Act in the agency overview section for additional information.

DP 5003 - Air Online Compliance Reporting-RST/OTO/BIE - The executive requests biennial one-time-only restricted state special revenue authority to modify the department's agency wide database to allow regulated facilities to submit required compliance reports online.

**LFD
COMMENT**

This decision package is dependent on air quality fees. The legislature does not establish the fees in statute. However, the amount the legislature appropriates from this source, directly impacts the size of the fee adjustment. See the discussion on the Clean Air Act in the agency overview section for additional information.

DP 5005 - Air Pollutant Emission Tracking - The executive requests 1.00 FTE special revenue authority to inventory and track emissions of air pollutants from all emission sources in order to implement the requirements of the New Source Review permitting program, and to implement the requirements of the Montana and Federal Clean Air Acts.

**LFD
COMMENT**

Under the Clean Air Act the state has the responsibility of assuring that the permitting programs are implemented in a manner to protect air quality, including the identification of new sources. In addition, this decision package is dependent on air quality fees. The legislature does not establish the fees in statute. However, the amount the legislature appropriates from this source, directly impacts the size of the fee adjustment. See the discussion on the Clean Air Act in the agency overview section for additional information.

DP 5006 - Air Resources Bureau Relocation-RST/OTO/BIE - The executive recommends this restricted one-time-only biennial budget request for relocation of the Air Resources Management Bureau.

**LFD
ISSUE****Relocation May Not Be Needed**

The Air Resources Management Bureau currently occupies 100 percent of the available office space within the assigned area of the Metcalf Building. If any additional FTE are approved, the Department may need to relocate the Air Resources Management Bureau to another building or into another area within the Metcalf Building, displacing staff from other bureaus. Since the department has experienced recruitment difficulties in this area, the legislature may wish to condition this appropriation on the successful hiring of any approved FTE. If the legislature does not approve additional FTE, this decision package is not needed.

**LFD
COMMENT**

This decision package is dependent on air quality fees. The legislature does not establish the fees in statute. However, the amount the legislature appropriates from this source, directly impacts the size of the fee adjustment. See the discussion on the Clean Air Act in the agency overview section for additional information.

DP 5009 - PCD Vehicles Owned and Leased - This budget request is for replacement of six vehicles that are currently owned by the department and two leased vehicles from the state Motor Pool.

**LFD
ISSUE****Number Of Vehicles**

If the legislature does not approve the additional FTE that would be located outside of Helena, this decision package could be limited to the six replacement vehicles.

DP 5011 - Aerial Reconnaissance in Coal Mine Inspection - The executive requests special revenue to provide thirty hours of helicopter flight time and GPS, computer and camera services by contracted individuals for the inspection program. This would provide electronically documented landscape references or standards for comparison between pre-mine and reclamation landscapes for future administrative and regulatory purposes.

DP 5012 - Hard Rock & MFSA Projects-RST/BIE - This request is for \$3,061,131 in FY 2008 and \$3,091,131 in FY 2009 of restricted biennial state and federal special revenue for projects administered by the Hard Rock and Major Facility Siting Act (MFSA) Programs and associated indirect costs. This would allow the department to:

- o Utilize proceeds from the sale of general obligation bonds to conduct on mine reclamation
- o Expend proceeds from forfeited bonds or settlement agreements for reclamation on related sites
- o Remediate mine sites with federal funds from the Bureau of Land Management and the US Forest Service
- o Collected major facility sitting act (MFSA) fees to complete sitting certification review

DP 5015 - Industrial Wastewater Operator Cert BIE/OTO - The executive requests a biennial one-time-only state special revenue authority to examine wastewater certification categories, develop new categories, and develop corresponding prescriptive industrial wastewater exams and study materials.

**LFD
COMMENT**

The anticipated outcome will be that industrial wastewater system operators will be tested and certified based on exam materials that directly relate to the type of wastewater system that they operate. Implementation of the new testing materials and the relative success of the applicants taking the new exams will be tracked through a database used for all current certification processes. Monthly statistics will be gathered to determine compliance with certification requirements.

DP 5016 - High Strength Wastewater Standards BIE/OTO - The executive requests spending authority to prepare a new circular or addition to DEQ-4 on non-residential strength wastewater treatment. Existing standards only pertain to residential strength wastewater and are inadequate for non-residential strength wastewater facilities, such as food processing or packaging facilities, restaurants, laboratories, and RV dump stations. The program would contract with an outside consulting firm to research and prepare the document.

DP 5017 - Subdivision Training IT - During the current biennium, the Subdivision Program utilized outside contractors to perform simple reviews, thereby freeing program staff to concentrate on performing the more difficult reviews within the mandated timeframes. The department also started developing internet-based training to educate individuals in the subdivision application process. The executive requests state special revenue to continue both activities.

**LFD
ISSUE****Recent History**

The 2005 legislature approved this funding to assist in reducing the processing time for subdivision review through contracted services and educational efforts. The department expended \$10,000 for contracted services and indirect assessments during FY 2006 and started planning for internet based training.

**LFD
ISSUE
CONT.**Contracted services

The department is anticipating contracting for the review of all county submitted reviews that need to be processed and finalized by the department within a ten-day period. Statistics were not provided regarding the effectiveness of this activity. The issue for the legislature is whether this has been an effective means of processing ten day reviews prior to establishing base funding for this activity.

Training

Through performance management reports to the Legislative Finance Committee, the department established the following performance criteria for the internet based education project:

1. On line training application development will be contracted by June 30, 2006. (Milestone)
2. On-line training applications will be developed by December 31, 2006. (Milestone)
3. On-line training utilization will increase monthly between the date of launch and December 31, 2007.
4. The number of first submittal approvals will increase by about 17 percent to 50 percent within 1 year of the implementation of on-line training, January 2007 through December 2007.

The department released the application development contract on October 1, 2006. This is the only measurable outcome of this activity to date. The issue for the legislature is to determine whether continued financial support is warranted for this activity. The legislature may wish to:

- Obtain an update on the progress of the internet base training application prior to deliberations
- Approve separate one-time only appropriation for maintenance costs
- Approve the package and condition with required reporting on performance

DP 5018 - Public Water Supply - Kalispell FTE - This state and federal special revenue budget request includes the addition of 1.00 FTE to provide technical assistance, compliance assistance, engineering review, operator training, and sanitary inspections to public water supply systems. The position would be located in the department's Kalispell Regional Office.

DP 5019 - Subdivision Grants to Counties - The executive recommends \$243,000 of state special revenue authority each year of the 2009 biennium for increased payments to counties that perform contracted subdivision reviews.

**LFD
COMMENT**

Nineteen Montana counties perform subdivision reviews under contract with the department. The counties provide review services and the department provides final approval within ten days of receipt of the county determination. (See DP 5017 for further details). The counties are compensated from the subdivision plat review fees for their work. Flathead, Missoula and Ravalli counties process the most applications.

The amount requested is equal to the carry forward authority that was approved by the Office of Budget and Program planning for use in this program during FY 2006. The department expended \$418,000 during FY 2006. This increase would establish the authority for grants to counties at \$435,000 and avoid the need to procure carry forward authority.

DP 5024 - Brownsfields Grant BIEN - The executive is requesting biennial federal authority to expend an awarded Brownsfield response grant. This would be used to establish and enhance the Hazardous Waste Section brownfields response program. Projects funded by the grant would include contaminated site inventories; all publicly available geographic information system (GIS) mapping systems; inventorying hazardous school laboratory chemical; and school lab safety training for middle and high school science teachers and administrators.

DP 5026 - Permitting & Compliance Division Base Adjustments - The executive requests approximately \$1.2 million each year of the biennium of all fund types to restore the base operating budget for the division. The base adjustment is attributed to the following areas:

- \$104,000 per year for operating costs not expended due to vacancies
- \$148,000 per year of contracted services costs for delayed contracting due to vacancies
- \$355,000 per year to annualize the operator reimbursement program and the junk vehicle grant program to historical levels
- \$366,000 per year for indirect adjustments to account for vacant positions and the proposed change in indirect calculations
- \$215,000 to restore authority associated with a missed year end accrual

**LFD
COMMENT**

This base adjustment includes two issues discussed in the agency overview section, the costs associated with vacant positions and the proposed change in the calculation of the indirect rate. Please see the agency overview section for additional information.

DP 5027 - On-site Wastewater Operator Certification OTO/BIE - The executive recommends restricted one-time-only state special revenue to develop an operator certification program for on-site wastewater treatment systems in accordance with 37-42-101, MCA. An on-site public wastewater system would be any system that serves 25 or more people daily or has 15 or more service connections and consists primarily of a septic tank and underground drain field.

DP 5028 - Air Regulatory Assistance RST/OTO/BIEN - The executive requests state special revenue to contract for permit application review, permit writing, preparation of environmental reviews required under the Montana Environmental Policy Act, and compliance activities to assure that permit conditions and other applicable requirements are being met. This is a one-time only biennial request.

**LFD
ISSUE****Contracted Services**

The department contends that contracted services are appropriate for permit or general environmental analysis (MEPA) or compliance outreach activities. This would account for less than fifteen percent of all air program activities. Since the department has difficulties with retaining staff, the legislature may wish to consider establishing performance criteria for this function to determine if on-going contracted services are warranted.

New Proposals

New Proposals										
Program	FTE	Fiscal 2008				FTE	Fiscal 2009			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 5013 - MFSA/MEPA FTE										
50	1.00	0	75,679	0	75,679	1.00	0	71,865	0	71,865
DP 5014 - Subdivision Review FTE										
50	2.00	0	162,416	0	162,416	2.00	0	159,242	0	159,242
DP 5020 - Coal Bed Methane Compliance Monitoring FTE										
50	2.00	0	0	250,385	250,385	2.00	0	0	238,127	238,127
DP 5021 - METH Staff - Re-Instate FTE										
50	1.50	73,927	0	0	73,927	1.50	73,982	0	0	73,982
DP 5029 - Swift Gulch Drainage System OTO/BIE										
50	0.00	500,000	0	0	500,000	0.00	0	0	0	0
Total	6.50	\$573,927	\$238,095	\$250,385	\$1,062,407	6.50	\$73,982	\$231,107	\$238,127	\$543,216

DP 5013 - MFSA/MEPA FTE - This state special budget request includes 1.00 FTE for Major Facilities Siting (MFSA) projects and Montana Environmental Policy Act (MEPA) analysis.

**LFD
COMMENT**

The department is currently experiencing an increase in MEPA/MFSA activity due to the necessity for environmental analysis in connection with proposed mines, mine expansions, amendment of closure plans, and new and pending transmission lines.

**LFD
ISSUE****Need Recruitment Plan**

This FTE would provide expertise for both MFSA and MEPA activities and would require a broad base of expertise which may be difficult to recruit for. The position is classified as an environmental scientist and is funded at just above the entry level. The department may have difficulties in filling this position in a timely manner. The legislature may wish to inquire about recruitment plans for this position.

DP 5014 - Subdivision Review FTE - The executive is requesting 2.0 FTE and corresponding operating expenses to provide resources to increase turnaround time on plan reviews. One FTE, a hydro-geologist specializing in water availability issues, would be located in Helena, the other FTE, and a professional engineer, located in a field office.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The number of heavy workload subdivision applications exceeding 100 lots increased by 400 percent last year. These larger, more complicated subdivisions require more information to be submitted by professional engineers, which must be reviewed by professional engineers.

Goals: To improve customer service with faster turn-around time on the review and approval of subdivision applications and provide a more detailed consideration of water impacts.

Performance Criteria: The main criteria that can be tracked are the time it takes to review and approve applications and the number of applications each reviewer has to work on. Assuming that the level of subdivision activity remains relatively stable, the time to review an application should be reduced from the current 60 days to 50 days or less within one year of hiring the FTEs. New rules and guidelines for water availability should be ready within 12 months.

Milestones: Both positions are currently being advertised and were expected to be filled by October 1, 2006

FTE: Professional Engineer – this position will be responsible for full file review. Senior hydrogeologist – this position will be responsible for developing standards, writing new rules, doing water related research for new rules, and reviewing water availability information for subdivision applications.

Funding: Both positions will be funded by fees.

Obstacles: At this point there are no obstacles unless qualified applicants are not available.

Risk: If this proposal is not approved file review times will continue to meet or exceed the 60 day statutory time period. Standards will not be developed for water related review issues and the existing staff may make mistakes in determining if adequate water is available for subdivisions.

**LFD
ISSUE****Recruitment Issues**

During the interim, the Office of Budget and Program Planning provided approval of two modified FTE to increase the efficiency of the subdivision review program. The department received this approval in March of 2006. This proposal is requesting the conversion of the modified FTE to permanent. At this writing, the engineer has not been hired.

**LFD
ISSUE
CONT.**

Progress toward the goal to improve turnaround time will be difficult to achieve in absence of this position. If the legislature wishes to approve this package, it may want to consider requiring performance reporting to assure progress is being made towards the goal.

DP 5020 - Coal Bed Methane Compliance Monitoring FTE - The executive requests 2.00 FTE federal special revenue to assist with energy related development. This includes developing discharge permits under the Water Quality Act related to coal bed methane and monitoring the compliance of such permits.

**LFD
COMMENT**

The Bureau of Land Management (BLM) is providing funding to DEQ for 2.00 FTE in the Water Protection Bureau to assist with energy related development: 1.00 FTE at Miles City to evaluate and monitor compliance of coal bed methane discharges and 1.00 FTE located in Helena for developing discharge permits. The Miles City position would collect both effluent and ambient water quality data to monitor energy development and assist in permit development and MEPA assessments. The Helena position would be responsible for developing the permitting system. This is a conversion of modified to permanent FTE.

DP 5021 - METH Staff - Re-Instate FTE - The executive requests 1.50 FTE general fund authority for the methamphetamine cleanup program authorized by the 2005 Legislature in HB 60.

**LFD
COMMENT**

This proposal converts modified FTE to permanent FTE. The department did not provide the necessary details to establish appropriate FTE in HB 2 during the 2005 session. This resulted in the department receiving unallocated personal services authority which is not tied to an FTE and does not roll forward in the base.

DP 5029 - Swift Gulch Drainage System OTO/BIE - The executive requests \$500,000 general fund authority for the 2009 biennium to be used to design and construct a semi-passive treatment system for the Swift Gulch drainage northwest of the Zortman-Landusky (Z/L) mine site in Eastern Montana. The ponds would allow for settling of metallic precipitates from the water, but the treatment system would remove iron from the water. Because of the remoteness of the location and the lack of electricity, the treatment system must rely on gravity and water flow.

**LFD
ISSUE****Construction And Maintenance Plan**

The semi-passive system would be implemented in conjunction with a series of settling ponds proposed for funding through a \$300,000 Reclamation Development Grants Program (RDGP) application. If both are approved, the department would have \$800,000 in authority to work with the Fort Belknap Indian Community Council in the design, construction and maintenance of this treatment system. Two issues should be addressed, the use of HB 2 for construction activities and the long term maintenance of this system.

Construction activities

The executive is proposing to construct a treatment system. The appropriation authority for this activity may be better suited in the long range building budget and reviewed by the Long Rang Planning subcommittee. Requests for the long range building program require details specific to the type of project, proposed alternatives, funding source, and long term maintenance costs. In addition, the request for corresponding RDGP grant would be heard by the same committee, providing consistent oversight to the process.

**LFD
ISSUE
CONT.**Maintenance costs

The executive's proposal indicates that the department will work with the Fort Belknap community on maintenance of the system. The proposal does not provide an indication of whether the state or the Fort Belknap community will be responsible for cost of system maintenance. The legislature may wish to determine this prior to deliberations.

To address the issues, the legislature may wish to:

- Defer the request to the Long Range Building program for a detailed review
- Approve the decisions package and require the department to establish a maintenance agreement prior to construction.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	6.00	0.00	0.00	6.00	0.00	0.00	6.00	6.00
Personal Services	293,339	14,540	0	307,879	15,727	0	309,066	616,945
Operating Expenses	326,594	37,114	0	363,708	38,213	0	364,807	728,515
Total Costs	\$619,933	\$51,654	\$0	\$671,587	\$53,940	\$0	\$673,873	\$1,345,460
State/Other Special	619,933	51,654	0	671,587	53,940	0	673,873	1,345,460
Total Funds	\$619,933	\$51,654	\$0	\$671,587	\$53,940	\$0	\$673,873	\$1,345,460

Program Description

The Petroleum Tank Release Compensation Board is attached to the department for administrative purposes. The purpose of the board is to administer the petroleum tank release cleanup fund. This includes reimbursement to petroleum storage tank owners and operators for corrective action costs and compensation paid to third parties for bodily injury and property damage resulting from a release of petroleum from a petroleum storage tank. The board has a staff of 6.00 FTE.

Program Highlights

Petro Tank Release Compensation Board	
Major Program Highlights	
♦	The executive is recommendation an increase of \$ 51,500 to keep pace with subrogation costs.
♦	Statewide adjustments make up the remaining increases
Major LFD Issues	
♦	None

Funding

The program is funded solely through a portion of the \$0.0075 fee on gasoline, diesel, heating oil, and aviation fuel distributed in Montana.

Program Funding Table						
Petro Tank Release Comp.						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 619,933	100.0%	\$ 671,587	100.0%	\$ 673,873	100.0%
02058 Petroleum Storage Tank Cleanup	619,933	100.0%	671,587	100.0%	673,873	100.0%
Grand Total	<u>\$ 619,933</u>	<u>100.0%</u>	<u>\$ 671,587</u>	<u>100.0%</u>	<u>\$ 673,873</u>	<u>100.0%</u>

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2008						Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				27,370						28,604
Vacancy Savings				(12,830)						(12,877)
Inflation/Deflation				46						71
Fixed Costs				(13,320)						(13,032)
Total Statewide Present Law Adjustments				\$1,266						\$2,766
DP 9001 - PTRCB Operations Adjustment										
0.00	0	50,388	0	50,388		0.00	0	51,174	0	51,174
Total Other Present Law Adjustments										
0.00	\$0	\$50,388	\$0	\$50,388		0.00	\$0	\$51,174	\$0	\$51,174
Grand Total All Present Law Adjustments				\$51,654						\$53,940

**LFD
COMMENT**

The components driving the biennial personal services adjustment is attributable to annualization of the previous pay plan, longevity adjustments, and increase to employer paid health insurance premiums.

DP 9001 - PTRCB Operations Adjustment - The executive recommends state special revenue of \$50,388 in FY 2008 and \$51,174 in FY 2009 for increased legal costs associated with claim subrogation, increased travel, and indirect charges. Authority for legal services would increase by 15 percent to \$250,000 annually, in order to keep pace with rising subrogation costs. The cost of subrogation the last six years has been \$706,080 and corresponding collections have been \$1,305,039.

Agency Proposed Budget

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	135.99	0.00	2.00	137.99	0.00	2.00	137.99	137.99
Personal Services	5,555,013	701,375	73,579	6,329,967	725,619	73,656	6,354,288	12,684,255
Operating Expenses	2,437,756	446,555	321,848	3,206,159	418,389	166,048	3,022,193	6,228,352
Equipment	107,513	201,712	10,000	319,225	120,712	0	228,225	547,450
Total Costs	\$8,100,282	\$1,349,642	\$405,427	\$9,855,351	\$1,264,720	\$239,704	\$9,604,706	\$19,460,057
General Fund	572,665	85,088	523,569	1,181,322	88,096	371,438	1,032,199	2,213,521
State/Other Special	6,068,235	1,187,894	(144,077)	7,112,052	1,098,954	(155,537)	7,011,652	14,123,704
Federal Special	1,459,382	76,660	25,935	1,561,977	77,670	23,803	1,560,855	3,122,832
Total Funds	\$8,100,282	\$1,349,642	\$405,427	\$9,855,351	\$1,264,720	\$239,704	\$9,604,706	\$19,460,057

Agency Description

The Department of Livestock is responsible for controlling and eradicating animal diseases, preventing the transmission of animal diseases to humans, protecting the livestock industry from theft and predatory animals, meat, milk and egg inspection and regulating the milk industry relative to producer pricing. The department, which is provided for in 2-15-3101, MCA, consists of the Board of Livestock and its appointed executive officer; the Livestock Crimestoppers' Commission; the Milk Control Board; and the Board of Horse Racing. The department is organized into five divisions: Animal Health, Centralized Services, Brand-Enforcement, Diagnostic Laboratory, and Meat, Milk, and Egg Inspection. The Board of Livestock, which is the statutory head of the Department of Livestock, consists of seven members appointed by the Governor and confirmed by the Senate to serve six-year terms.

Agency Highlights

Department of Livestock Major Budget Highlights
<ul style="list-style-type: none">◆ The executive budget would increase \$3.3 million, or 20 percent, in the 2009 biennium from double the FY 2006 base◆ Statewide present law adjustments account for \$1.8 million of the biennial increase◆ New proposals add \$0.6 million<ul style="list-style-type: none">• Provide a one-time-only general fund appropriation to the Board of Horse Racing -- \$350,000 for the biennium• Substitute additional general fund for lab fee revenue at the diagnostic lab -- \$412,698 for the biennium◆ Other present law adjustments add \$835,000 for the biennium
Major LFD Issues
<ul style="list-style-type: none">◆ Diagnostic lab revenues and operations need careful consideration and review◆ Executive budget replaces declining federal funds with state general fund◆ Executive budget assumes costs now borne by racetracks

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- o Goals, objectives and year-to-date outcomes from the 2007 biennium
- o Goals and objectives and their correlation to the 2009 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

2007 Biennium New Initiative Update

The 2005 Legislature passed SB 484 which provided for inspection and certification of mobile slaughtering facilities. Rules for inspection and certification were completed, however, no applications for facilities have yet to be filed.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the executive. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2009 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
01 Centralized Services Program	\$ 350,000	\$ 3,915,905	\$ -	\$ 4,265,905	21.92%
03 Diagnostic Laboratory Program	600,000	2,621,745	-	3,221,745	16.56%
04 Animal Health Division	-	1,079,905	1,874,172	2,954,077	15.18%
05 Milk & Egg Program	-	591,219	65,708	656,927	3.38%
06 Brands Enforcement Division	-	5,901,980	-	5,901,980	30.33%
10 Meat/Poultry Inspection	1,263,521	12,950	1,182,952	2,459,423	12.64%
Grand Total	\$ 2,213,521	\$ 14,123,704	\$ 3,122,832	\$ 19,460,057	100.00%

The Department of Livestock is funded by general fund, state special revenue, and federal special revenue.

The Governor recommends a \$1.1 million, or 93% increase in general fund in the 2009 biennium. General fund supports three programs in the executive budget: 1) \$300,000 per year for the diagnostic lab in Bozeman; 2) Approximately \$630,000 per year for meat/poultry inspections; and 3) \$350,000 in the 2009 biennium for the Board of Horse Racing. The Governor recommends the Board of Horse Racing appropriation be a one-time-only appropriation. The diagnostic lab receives general fund for its role in testing for public health and safety related diseases. The U.S. Department of Agriculture Food Safety Inspection Service matching of general fund dollars for meat inspections is a 50-50 match of general fund and federal special revenue. The Board of Horse Racing general fund appropriation would be used to temporarily support the program during the 2009 biennium.

The executive budget increases state special revenue by \$2.0 million, or 16 percent in the 2009 biennium from double the FY 2006 base. State special revenue in the Department of Livestock is derived primarily from taxes and fees assessed to livestock producers. The three state special revenue funds that comprise over 90 percent of the state special revenues in the department are discussed below.

Livestock per capita fund

The livestock per capita fund is the largest state special revenue fund and supports animal health functions, predator control, the centralized services division, and a portion of the brand enforcement division. Per capita revenue is derived by taxation on the ownership of livestock and interest earnings on the fund balance. The Board of Livestock annually evaluates a number of factors to determine if and how much the per capita tax rate should change. In FY 2006, department expenditures from this fund totaled \$2.8 million. In the 2009 biennium, the executive budget includes approximately \$3.3 million annually. (See the fund table in the Centralized Services Division narrative for more information on this fund.)

Animal health fund

The animal health fund derives its revenues from lab testing fees and milk and egg inspection fees. The diagnostic lab and the milk and egg inspection functions are supported by this fund. The department has had challenges balancing expenditure with revenues in this fund in recent years and has had to transfer funds from the livestock per capita fund to this fund at the end of FY 2005 and FY 2006 to cover expenses. The department is projecting increased lab testing fee revenue in the 2009 biennium. (See the agency issues section of this narrative for more discussion of the animal health fund.) In FY 2006, department expenditures from this fund totaled \$1.3 million. In the 2009 biennium, the executive budget includes approximately \$1.6 million annually.

Inspection and control fund

The inspection and control fund supports brand enforcement functions and derives its revenues from brand recordings and market and local inspections.

Federal special revenue comes from the bison operational cooperative agreement and the Greater Yellowstone Interagency Brucellosis Committee (GYIBC) grant for contracted research and from the U.S. Department of Agriculture in matching funds for meat and poultry inspections.

Biennium Budget Comparison

The following table compares the executive budget request in the 2009 biennium with the 2007 biennium by type of expenditure and source of funding. The 2007 biennium consists of actual FY 2006 expenditures and FY 2007 appropriations.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	Present Law Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Biennium Fiscal 06-07	Total Exec. Budget Fiscal 08-09
FTE	135.99	2.00	137.99	135.99	2.00	137.99	135.99	137.99
Personal Services	6,256,388	73,579	6,329,967	6,280,632	73,656	6,354,288	11,691,015	12,684,255
Operating Expenses	2,884,311	321,848	3,206,159	2,856,145	166,048	3,022,193	4,767,784	6,228,352
Equipment	309,225	10,000	319,225	228,225	0	228,225	254,576	547,450
Total Costs	\$9,449,924	\$405,427	\$9,855,351	\$9,365,002	\$239,704	\$9,604,706	\$16,713,375	\$19,460,057
General Fund	657,753	523,569	1,181,322	660,761	371,438	1,032,199	1,165,319	2,213,521
State/Other Special	7,256,129	(144,077)	7,112,052	7,167,189	(155,537)	7,011,652	12,561,145	14,123,704
Federal Special	1,536,042	25,935	1,561,977	1,537,052	23,803	1,560,855	2,986,911	3,122,832
Total Funds	\$9,449,924	\$405,427	\$9,855,351	\$9,365,002	\$239,704	\$9,604,706	\$16,713,375	\$19,460,057

Supplemental Appropriations

The executive recommends a \$97,534 general fund supplemental appropriation for the department to replace declining federal funds available for meat and poultry inspection. The funds would be used to continue conducting meat and poultry inspections in FY 2007.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals											
Fiscal 2008						Fiscal 2009					
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 1009 - Meat Inspection Funding Shortfall											
10	0.00	41,286	0	0	41,286	0.00	41,286	0	0	41,286	
DP 1010 - Meat Plant Inspector RST											
10	1.00	22,673	0	22,674	45,347	1.00	20,542	0	20,542	41,084	
DP 1011 - FAIM Computer Maintenance Contract											
10	0.00	3,261	0	3,261	6,522	0.00	3,261	0	3,261	6,522	
DP 1080 - Board of Horse Racing Support											
01	0.00	250,000	0	0	250,000	0.00	100,000	0	0	100,000	
DP 3001 - Diagnostic Lab General Fund Increase											
03	0.00	206,349	(206,349)	0	0	0.00	206,349	(206,349)	0	0	
DP 3008 - Diagnostic Lab PCR Technology OTO											
03	1.00	0	62,272	0	62,272	1.00	0	50,812	0	50,812	
Total	2.00	\$523,569	(\$144,077)	\$25,935	\$405,427	2.00	\$371,438	(\$155,537)	\$23,803	\$239,704	

Agency Issues*Animal Health Fund*

The animal health fund derives its revenues from diagnostic lab fees and milk inspection fees. These revenues are used primarily to support the diagnostic lab and the milk & egg inspection program. The department has had challenges balancing expenditures with revenues in this fund in recent years and has had to transfer funds from the livestock per capita fund to this fund at the end of FY 2005 and FY 2006 to cover expenses. The department is projecting increased lab testing fee revenue in the 2009 biennium.

Figure 1 Historical and Projected Fund Analysis Animal Health Fund - Montana Department of Livestock Fiscal Years 2004 Through 2009						
Item	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimated	FY 2008 Exec Budget	FY 2009 Exec Budget
Beginning Fund Balance	\$94,499	(\$120,292)	\$101,494	\$57,744	\$335,114	\$351,883
Adjustment to Fund Balance		57,733				
Revenue						
Fees, Licenses, Taxes	1,005,247	987,851	1,037,863	1,649,690	1,649,690	1,649,690
Transfers	4,500	545,000	403,665	0	0	0
Other	14,007	9,077	12,243	23,200	23,200	23,200
Total Revenue	1,023,754	1,541,928	1,453,771	1,672,890	1,672,890	1,672,890
Expenditures by Program						
Diagnostic Lab	977,789	1,114,196	1,219,370	1,082,473	1,341,510	1,280,235
Animal Health	14,931	0	5,305	15,970	0	0
Milk & Egg	239,350	257,204	266,371	289,966	308,136	283,083
Meat & Poultry Inspection	6,475	6,475	6,475	7,111	6,475	6,475
Total Expenditures	1,238,545	1,377,875	1,497,521	1,395,520	1,656,121	1,569,793
Ending Fund Balance	(\$120,292)	\$101,494	\$57,744	\$335,114	\$351,883	\$454,980

As calculated from the figure, the department is projecting an approximate 59 percent increase in total fee revenue between FY 2006 and each year of the 2009 biennium. Most of this increase is related to a department-projected 70 percent lab fee revenue increase, which implies either lab fee rates would increase or service demand would increase, or both. The executive budget does include a new proposal to add general fund to the diagnostic laboratory budget (DP 3001). However, the 70 percent lab fee revenue increase assumes the general fund request is approved. If it is not

approved, and the executive budget request for expenditures is approved, the either the calculated revenue increase would be 100 percent, or the fund balance would be reduced. The executive budget does not address the feasibility of this kind of fee increase in its proposal, nor does it address the estimated impact upon demand for services with the projected fee increase.

The Board of Livestock reviews lab fee rates annually, along with estimated expenditures from the animal health fund. The department has noted that the board normally considers three options when addressing fee increases:

- 1) Whether to increase rates, or
- 2) Reduce services, or
- 3) Infuse the program with funds from other sources such as the livestock per capita fee, as it did for FY 2005 and FY 2006.

**LFD
COMMENT**

The executive did not budget support from the livestock per capita fee for the diagnostic lab in the 2009 biennium. At the time of this writing, the department was not prepared to provide a definite answer to which of the above three options it would likely decide upon for the 2009 biennium. The legislature may wish to address the question of whether additional general fund support for the diagnostic lab is appropriate, or if one of the three options normally considered by the department should be pursued.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	19.78	0.00	0.00	19.78	0.00	0.00	19.78	19.78
Personal Services	827,608	137,609	0	965,217	140,193	0	967,801	1,933,018
Operating Expenses	677,208	329,478	250,000	1,256,686	298,993	100,000	1,076,201	2,332,887
Total Costs	\$1,504,816	\$467,087	\$250,000	\$2,221,903	\$439,186	\$100,000	\$2,044,002	\$4,265,905
General Fund	0	0	250,000	250,000	0	100,000	100,000	350,000
State/Other Special	1,504,816	467,087	0	1,971,903	439,186	0	1,944,002	3,915,905
Federal Special	0	0	0	0	0	0	0	0
Total Funds	\$1,504,816	\$467,087	\$250,000	\$2,221,903	\$439,186	\$100,000	\$2,044,002	\$4,265,905

Program Description

The Centralized Services Division is responsible for budgeting, accounting, payroll, personnel, legal services, purchasing, administrative, information technology, and general services functions for the department. The Predator Control Program is administered by the Board of Livestock and the executive officer. Although the board placed the predator function in this division during the 2003 biennium, all functions remain unchanged, including the two aircraft and the contract with U.S. Department of Agriculture Wildlife Services. Through helicopter hunting and contracts, predators that kill or injure domestic livestock, primarily coyotes, are controlled.

This division also provides administrative support to the three administratively attached organizations: The Livestock Crimestoppers' Commission, the Milk Control Board, and the Board of Horse Racing.

Program Highlights

Centralized Services Division	
Major Budget Highlights	
♦	The biennial budget would increase 41 percent if the executive proposals were adopted
♦	The executive adds \$350,000 general fund for a one-time-only appropriation to the Board of Horse Racing
♦	The executive restores funding for fixed costs that were paid with carry forward funds in FY 2006 - \$197,000
♦	Other statewide present law adjustments add \$472,000
♦	The executive increases funding for the predator control program - \$155,350
Major LFD Issues	
♦	The executive proposes that the general fund assume costs at horseracing tracks currently borne by the racetracks

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Centralized Services Pro						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ -	-	\$ 250,000	11.3%	\$ 100,000	4.9%
01100 General Fund	-	-	250,000	11.3%	100,000	4.9%
02000 Total State Special Funds	1,504,816	100.0%	1,971,903	88.7%	1,944,002	95.1%
02029 Board Of Horse Racing	158,067	10.5%	187,520	8.4%	188,042	9.2%
02426 Lvstk Per Capita	1,140,955	75.8%	1,544,674	69.5%	1,514,741	74.1%
02817 Milk Control Bureau	205,794	13.7%	239,709	10.8%	241,219	11.8%
Grand Total	<u>1,504,816</u>	<u>100.0%</u>	<u>2,221,903</u>	<u>100.0%</u>	<u>2,044,002</u>	<u>100.0%</u>

The division is funded from the livestock per capita fund, the milk control bureau fund, and the board of horse racing fund. The livestock per capita fund, an annual tax on livestock headcount, funds all activities of the division, except for the administratively attached boards. The division collects indirect cost reimbursements on federal and state special revenues expended in other divisions; these reimbursements are deposited to the livestock per capita fund. The milk control bureau and the board of horse racing are funded from fees assessed to the respective industries.

The executive budget includes \$350,000 general fund in the 2009 biennium for a one-time-only appropriation for the Board of Horse Racing.

The historical and projected fund balance for the livestock per capita fund is shown in the table below. The projected revenue and expenditures in the table are from the proposed executive budget.

Figure 2 Historical and Projected Fund Analysis Livestock Per Capita Tax - Montana Department of Livestock Fiscal Years 2004 Through 2009						
Item	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Estimated	FY 2008 Exec Budget	FY 2009 Exec Budget
Beginning Fund Balance	\$93,662	\$1,156,507	\$1,621,590	\$1,295,057	\$1,659,178	\$2,005,576
Adjustment to Fund Balance	(57)		(816,767)			
Revenue						
Fees, Licenses, Taxes	3,214,859	3,216,395	3,450,779	3,594,000	3,594,000	3,594,000
Transfers	0	0	262,497	0	0	0
Other	<u>5,791</u>	<u>32,378</u>	<u>70,281</u>	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>
Total Revenue	<u>3,220,650</u>	<u>3,248,773</u>	<u>3,783,557</u>	<u>3,644,000</u>	<u>3,644,000</u>	<u>3,644,000</u>
Expenditures by Program						
Centralized Services	1,095,783	1,521,438	1,646,025	1,340,218	1,544,674	1,514,741
Diagnostic Laboratory	198,342	178,851	290,708	234,624	0	0
Animal Health	260,301	396,041	249,556	629,598	525,364	554,541
Milk & Egg	0	19,347	0	0	0	0
Brands Enforcement	<u>603,322</u>	<u>668,013</u>	<u>1,107,034</u>	<u>1,075,439</u>	<u>1,227,564</u>	<u>1,201,564</u>
Total Expenditures	<u>2,157,748</u>	<u>2,783,690</u>	<u>3,293,323</u>	<u>3,279,879</u>	<u>3,297,602</u>	<u>3,270,846</u>
Ending Fund Balance	<u>\$1,156,507</u>	<u>\$1,621,590</u>	<u>\$1,295,057</u>	<u>\$1,659,178</u>	<u>\$2,005,576</u>	<u>\$2,378,730</u>

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2008						Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				170,016						172,707
Vacancy Savings				(39,907)						(40,014)
Inflation/Deflation				1,795						2,161
Fixed Costs				215,519						186,604
Total Statewide Present Law Adjustments				\$347,423						\$321,458
DP 1005 - Predator Control Authority Increase										
0.00	0	77,675	0	77,675		0.00	0	77,675	0	77,675
DP 1006 - Department wide IT Equipment Replacement RST										
0.00	0	6,763	0	6,763		0.00	0	4,683	0	4,683
DP 1007 - Board of Livestock - Per Diem										
0.00	0	5,100	0	5,100		0.00	0	5,100	0	5,100
DP 1009 - Information Technology -Oracle Training										
0.00	0	2,055	0	2,055		0.00	0	2,055	0	2,055
DP 1037 - Board of Milk Control - Legal Fees										
0.00	0	25,000	0	25,000		0.00	0	25,000	0	25,000
DP 1038 - Board of Milk Control - Per Diem										
0.00	0	1,100	0	1,100		0.00	0	1,100	0	1,100
DP 1078 - Board of Horse Racing - Per Diem										
0.00	0	1,300	0	1,300		0.00	0	1,300	0	1,300
DP 1079 - Board of Horse Racing - Rent										
0.00	0	671	0	671		0.00	0	815	0	815
Total Other Present Law Adjustments										
0.00	\$0	\$119,664	\$0	\$119,664		0.00	\$0	\$117,728	\$0	\$117,728
Grand Total All Present Law Adjustments				\$467,087						\$439,186

**LFD
COMMENT**

The statewide present law personal services adjustment includes the implementation and annualization of the 2007 biennium pay plan approved by the 2005 Legislature and restoration of salaries and benefits for vacancy savings realized in FY 2006. Fixed costs increase significantly as most of the base year rent and grounds maintenance were funded from carry forward funds that are not considered ongoing ded in the base year funding.

DP 1005 - Predator Control Authority Increase - The executive budget increases the predator control program \$155,350 in the 2009 biennium to increase the contract with USDA Wildlife Services for aerial hunting of predators. Base year expenditures for this program are \$244,500 and are funded from the livestock per capita fund.

DP 1006 - Department wide IT Equipment Replacement RST - The executive budget includes \$11,446 additional livestock per capita funds, as a restricted appropriation, to allow the purchase of replacement computer equipment in the department on a four year replacement cycle, to replace two computer servers via a lease with the state Department of Administration, and to purchase a replacement color laser printer.

DP 1007 - Board of Livestock - Per Diem - The executive budget restores the base year board per diem expenditures to allow the board to meet its statutory obligations to direct the department. Per diem expenditures are zero-based and must be restored each biennium. The executive budget recommends livestock per capita funds fund this present law adjustment.

DP 1009 - Information Technology -Oracle Training - The executive budget includes \$4,110 in the 2009 biennium for oracle training for two new information technology staff members. The executive budget recommends livestock per capita funds fund this present law adjustment.

DP 1037 - Board of Milk Control - Legal Fees - The executive budget recommends an additional \$50,000 milk control bureau assessment fees be included in the Board of Milk Control budget for legal fees anticipated in the 2009 biennium. The Board oversees producer pricing and performs other regulatory functions for the Montana milk industry and contracts with the Attorney General's Office for legal services.

DP 1038 - Board of Milk Control - Per Diem - The executive budget restores the base year board per diem expenditures to allow the board to meet its statutory obligations. Per diem expenditures are zero-based and must be restored each biennium. The executive budget funds this present law adjustment with milk control bureau assessment fees.

DP 1078 - Board of Horse Racing - Per Diem - The executive budget restores the base year board per diem expenditures to allow the board to meet its statutory obligations. Per diem expenditures are zero-based and must be restored each biennium. The executive budget funds this present law adjustment with board of horse racing state special revenues (licensing fees and one percent of wagers).

DP 1079 - Board of Horse Racing - Rent - The executive budget includes a rent increase for the Board of Horse Racing from \$11.64 per square foot in FY 2006 to \$12.107 in FY 2008 and \$12.349 in FY 2009. The rate increases by two percent a year as per agreement. The total increase for 597 total sq. ft. occupied is \$671 in FY 2008 and \$815 in FY 2009.

New Proposals

New Proposals										
Fiscal 2008						Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1080 - Board of Horse Racing Support										
01	0.00	250,000	0	0	250,000	0.00	100,000	0	0	100,000
Total	0.00	\$250,000	\$0	\$0	\$250,000	0.00	\$100,000	\$0	\$0	\$100,000

DP 1080 - Board of Horse Racing Support - The executive budget includes a \$350,000 general fund one-time-only appropriation in the 2009 biennium to support the Board of Horseracing. The funds would be used to assume certain costs currently borne by the race track. The executive proposes paying a portion of the regulatory costs, primarily salaries for race track officials, which have been paid in the past by those tracks putting on the event. The executive justifies the request by noting that the expenditure of the funds would enable the board to meet its statutory obligation to protect the integrity of the gambling aspects of horse racing for both patrons and participants.

LFD ISSUE

Montana has a number of professional licensing and oversight boards located in the Department of Labor and Industry. These boards provide oversight in a number of professions, including but not limited to dentistry, nursing, psychologist, veterinary medicine, architects, plumbers, and public accountants. All of these boards are funded with license fees on appropriate professions.

One of the issues for the legislature is whether a state interest is present that would warrant support of the Board of Horseracing by the general taxpayer in the state. In the current biennium, the Board of Horseracing is funded by license fees and a percentage of the money wagered. Revenue collections have decreased from \$160,000 in FY 2002 to \$86,000 in FY 2006. If revenue collections are a reflection of the horse racing industry in general in Montana, the legislature may wish to evaluate the long-term need for a Board of Horseracing. However, if it is the legislature's intent that the Board of Horseracing continue, it may wish to direct the executive to report the findings of the Montana Horse Racing Task Force, established in April 2006 by Executive Order No. 33-2006 for the purpose of studying the horse racing industry in Montana and determining whether specific measures could be taken to revitalize the industry. The legislature may also wish to direct the executive to develop and present to the appropriate interim legislative committee a realistic, achievable long-term plan to meet its statutory goals and include realistic funding options that do not require state general fund.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	20.50	0.00	1.00	21.50	0.00	1.00	21.50	21.50
Personal Services	952,645	65,643	40,772	1,059,060	69,415	40,812	1,062,872	2,121,932
Operating Expenses	476,411	29,539	11,500	517,450	30,952	10,000	517,363	1,034,813
Equipment	0	55,000	10,000	65,000	0	0	0	65,000
Total Costs	\$1,429,056	\$150,182	\$62,272	\$1,641,510	\$100,367	\$50,812	\$1,580,235	\$3,221,745
General Fund	93,651	0	206,349	300,000	0	206,349	300,000	600,000
State/Other Special	1,335,405	150,182	(144,077)	1,341,510	100,367	(155,537)	1,280,235	2,621,745
Total Funds	\$1,429,056	\$150,182	\$62,272	\$1,641,510	\$100,367	\$50,812	\$1,580,235	\$3,221,745

Program Description

The Diagnostic Laboratory provides livestock laboratory diagnostic support for the Disease Control Program, Milk and Egg program, and livestock producers. Testing is done for zoonotic diseases and on dairy products to protect the health of Montana citizens. Laboratory testing services are conducted upon request to assist animal owners, veterinarians, the Department of Fish, Wildlife and Parks and other agencies in protecting the health of animals, wildlife and the public.

Program Highlights

Diagnostic Laboratory Major Budget Highlights	
♦	The executive proposes to increase general fund to the diagnostic lab \$206,349 each year of the 2009 biennium
Major LFD Issues	
♦	Diagnostic lab revenues and operations need careful consideration and review

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Diagnostic Laboratory Pr						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 93,651	6.6%	\$ 300,000	18.3%	\$ 300,000	19.0%
01100 General Fund	93,651	6.6%	300,000	18.3%	300,000	19.0%
02000 Total State Special Funds	1,335,405	93.4%	1,341,510	81.7%	1,280,235	81.0%
02426 Lvstk Per Capita	290,707	20.3%	-	-	-	-
02427 Animal Health	1,044,698	73.1%	1,341,510	81.7%	1,280,235	81.0%
Grand Total	<u>\$1,429,056</u>	<u>100.0%</u>	<u>\$1,641,510</u>	<u>100.0%</u>	<u>\$1,580,235</u>	<u>100.0%</u>

In FY 2006, the diagnostic laboratory was funded from lab fees, state general fund, and a non-budgeted transfer from the livestock per capita fund. The executive budget proposes a general fund increase for the diagnostic laboratory, from approximately \$94,000 in FY 2006 to \$300,000 each year of the 2009 biennium (see New Proposals).

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
	Fiscal 2008					Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					105,773					109,700
Vacancy Savings					(42,338)					(42,493)
Inflation/Deflation					8,228					8,644
Fixed Costs					5,086					5,086
Total Statewide Present Law Adjustments					\$76,749					\$80,937
DP 3007 - Diagnostic Lab Equipment	0.00	0	63,902	0	63,902	0.00	0	8,902	0	8,902
DP 3009 - Lab Recharges	0.00	0	7,323	0	7,323	0.00	0	8,320	0	8,320
DP 3010 - Lab Overtime	0.00	0	2,208	0	2,208	0.00	0	2,208	0	2,208
Total Other Present Law Adjustments	0.00	\$0	\$73,433	\$0	\$73,433	0.00	\$0	\$19,430	\$0	\$19,430
Grand Total All Present Law Adjustments					\$150,182					\$100,367

DP 3007 - Diagnostic Lab Equipment - The executive budget provides \$72,804 lab fee authority for numerous pieces of new and replacement diagnostic lab equipment in the 2009 biennium including an automated tissue stainer, a tissue processor, a blood centrifuge, a water bath, an emergency generator, two air conditioning units, a microscopic digital camera system, and a water purification system.

DP 3009 - Lab Recharges - The executive budget recommends sufficient budget authority be included to pay Montana State University-Bozeman for overhead expenses at the lab for facilities management services. These expenses are expected to increase \$7,343 above the base in FY 2008 and \$8,320 in FY 2009. The increased cost is funded with state special revenue (lab fees).

DP 3010 - Lab Overtime - The executive budget provides \$4,416 in the 2009 for anticipated overtime costs at the diagnostic laboratory. Overtime costs are zero-based and must be requested separately each biennium.

New Proposals

New Proposals										
Program	Fiscal 2008					Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3001 - Diagnostic Lab General Fund Increase										
03	0.00	206,349	(206,349)	0	0	0.00	206,349	(206,349)	0	0
DP 3008 - Diagnostic Lab PCR Technology OTO										
03	1.00	0	62,272	0	62,272	1.00	0	50,812	0	50,812
Total	1.00	\$206,349	(\$144,077)	\$0	\$62,272	1.00	\$206,349	(\$155,537)	\$0	\$50,812

DP 3001 - Diagnostic Lab General Fund Increase - The executive budget recommends the general fund support for the diagnostic laboratory at Bozeman increase from \$93,651 in FY 2006 to \$300,000 each year of the 2009 biennium to recognize the increased number of lab tests conducted for public health. Since this is a fund switch, state special revenue is reduced by a like amount.

**LFD
COMMENT**

The executive is projecting diagnostic lab revenues to increase from \$703,593 in FY 2006 to \$1.2 million each year of the 2009 biennium through increased lab fees and increased business volume. The projected revenue represents a 70 percent increase from FY 2006 to FY 2008. The legislature may want to query the department as to the likelihood of achieving this revenue target and the department's plan for operating within actual revenue realized. For a further discussion, see the agency narrative section of this report.

DP 3008 - Diagnostic Lab PCR Technology OTO - The executive budget includes a \$113,084 budget increase in the 2009 biennium for a 1.0 FTE molecular technologist to devote full-time to the development and validation of molecular testing procedures using the lab's polymers chain reaction (PCR) technology. The recommended budget increase also includes allowances for increased lab test and other supplies and a refrigerated centrifuge. The Governor recommends this decision package as a one-time-only appropriation and funds it from diagnostic lab fees.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	14.00	0.00	0.00	14.00	0.00	0.00	14.00	14.00
Personal Services	480,654	218,509	0	699,163	222,652	0	703,306	1,402,469
Operating Expenses	651,686	39,376	0	691,062	38,410	0	690,096	1,381,158
Equipment	72,225	0	0	72,225	26,000	0	98,225	170,450
Total Costs	\$1,204,565	\$257,885	\$0	\$1,462,450	\$287,062	\$0	\$1,491,627	\$2,954,077
State/Other Special	301,047	224,317	0	525,364	253,494	0	554,541	1,079,905
Federal Special	903,518	33,568	0	937,086	33,568	0	937,086	1,874,172
Total Funds	\$1,204,565	\$257,885	\$0	\$1,462,450	\$287,062	\$0	\$1,491,627	\$2,954,077

Program Description

The Animal Health Division provides diagnosis, prevention, control, and eradication of animal diseases, including those in bison and game farm animals. The program cooperates with the Departments of Public Health and Human Services, Fish, Wildlife and Parks, and Agriculture to protect human health from animal diseases transmissible to humans. Sanitary standards are supervised for animal concentration points, such as auction markets, and certain animal product processing facilities, such as rendering plants. The Rabies Control Unit protects public health from rabies by controlling the transmission of domestic animal and wildlife rabies, particularly through eradication of skunks.

Program Highlights

Animal Health Program Major Budget Highlights
<ul style="list-style-type: none">◆ The executive continues the department’s participation in the state-federal cooperative agreement for Brucellosis Management and the Greater Yellowstone Interagency Brucellosis Committee (GYIBC) and projects a funding increase in the 2009 biennium◆ Personal services increase as some base year salaries and benefits were paid from federal funds that were added via budget amendment
Major LFD Issues
<ul style="list-style-type: none">◆ None

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Animal Health Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 301,047	25.0%	\$ 525,364	35.9%	\$ 554,541	37.2%
02426 Lvstk Per Capita	295,741	24.6%	525,364	35.9%	554,541	37.2%
02427 Animal Health	5,306	0.4%	-	-	-	-
03000 Total Federal Special Funds	903,518	75.0%	937,086	64.1%	937,086	62.8%
03427 Bison Trap Funds	903,518	75.0%	937,086	64.1%	937,086	62.8%
Grand Total	1,204,565	100.0%	1,462,450	100.0%	1,491,627	100.0%

State special revenue, primarily the livestock per capita fund, supports disease control, import/export activities, and alternative livestock activities and is projected to increase 75 percent from FY 2006 to FY 2008. Federal funds support bison operations and Greater Yellowstone Interagency Brucellosis Committee (GYIBC) research and cooperative efforts.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2008-----					-----Fiscal 2009-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				247,640					251,959
Vacancy Savings				(29,131)					(29,307)
Inflation/Deflation				912					995
Total Statewide Present Law Adjustments				\$219,421					\$223,647
DP 4003 - Animal Health Division Vehicle Replacement RST/OTO									
0.00	0	0	0	0	0.00	0	26,000	0	26,000
DP 4004 - Federal Funding - Bison									
0.00	0	0	31,564	31,564	0.00	0	0	30,815	30,815
DP 4005 - Out-of-State Travel									
0.00	0	6,600	0	6,600	0.00	0	6,600	0	6,600
Total Other Present Law Adjustments									
0.00	\$0	\$6,600	\$31,564	\$38,164	0.00	\$0	\$32,600	\$30,815	\$63,415
Grand Total All Present Law Adjustments				\$257,585					\$287,062

LFD COMMENT

The statewide present law personal services adjustment includes the implementation and annualization of the 2007 biennium pay plan approved by the 2005 Legislature, and restores approximately \$200,000 personal services expenditures for base positions that were funded in FY 2006 from federal budget amendment funds.

DP 4003 - Animal Health Division Vehicle Replacement RST - The executive budget recommends replacement of a vehicle that is used by livestock investigators to conduct their business. The FY 2009 budget includes a \$26,000 restricted appropriation for this purpose, funded from the livestock per capita fund.

DP 4004 - Federal Funding - Bison - The executive budget includes additional federal authority for the department to receive and spend anticipated increased funding in the 2009 biennium for bison operations and GYIBC research and cooperative efforts.

DP 4005 - Out-of-State Travel - The executive budget adds \$13,200 in the 2009 biennium for increased out-of-state travel for disease control meetings and to maintain staff training and qualifications. This request is funded from the livestock per capita fund.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	5.00	0.00	0.00	5.00	0.00	0.00	5.00	5.00
Personal Services	252,561	13,881	0	266,442	14,825	0	267,386	533,828
Operating Expenses	43,757	4,791	0	48,548	4,794	0	48,551	97,099
Equipment	0	26,000	0	26,000	0	0	0	26,000
Total Costs	\$296,318	\$44,672	\$0	\$340,990	\$19,619	\$0	\$315,937	\$656,927
State/Other Special	263,464	44,672	0	308,136	19,619	0	283,083	591,219
Federal Special	32,854	0	0	32,854	0	0	32,854	65,708
Total Funds	\$296,318	\$44,672	\$0	\$340,990	\$19,619	\$0	\$315,937	\$656,927

Program Description

The Milk and Egg Inspection program ensures that eggs, milk, and milk products sold or manufactured in Montana are fit for human consumption. Enforcement of state and federal laws is accomplished through licensing, sampling, laboratory testing, and product and site inspections, done in cooperation with other state and federal agencies.

Program Highlights

Milk and Egg Program Major Budget Highlights	
♦	The executive recommends budget increases for a replacement vehicle, increased out of state travel, and increased fuel costs
Major LFD Issues	
♦	None

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Milk & Egg Program						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 263,464	88.9%	\$ 308,136	90.4%	\$ 283,083	89.6%
02427 Animal Health	263,464	88.9%	308,136	90.4%	283,083	89.6%
03000 Total Federal Special Funds	32,854	11.1%	32,854	9.6%	32,854	10.4%
03032 Animal Health Sp. Rev	32,854	11.1%	32,854	9.6%	32,854	10.4%
Grand Total	296,318	100.0%	340,990	100.0%	315,937	100.0%

State special revenue from milk industry fees is the primary funding source for this division. Federal special revenues are provided from the U.S. Department of Agriculture to conduct shell egg surveillance.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2008-----					-----Fiscal 2009-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				24,983					25,966
Vacancy Savings				(11,102)					(11,141)
Inflation/Deflation				540					543
Fixed Costs				1,070					1,070
Total Statewide Present Law Adjustments				\$15,491					\$16,438
DP 5004 - Milk and Egg Bureau Vehicle Replacement RST/OTO									
0.00	0	26,000	0	26,000	0.00	0	0	0	0
DP 5005 - Milk & Egg Out of State Travel									
0.00	0	3,181	0	3,181	0.00	0	3,181	0	3,181
Total Other Present Law Adjustments									
0.00	\$0	\$29,181	\$0	\$29,181	0.00	\$0	\$3,181	\$0	\$3,181
Grand Total All Present Law Adjustments				\$44,672					\$19,619

**LFD
COMMENT**

The statewide present law personal services adjustment includes the implementation and annualization of the 2007 biennium pay plan approved by the 2005 Legislature.

DP 5004 - Milk and Egg Bureau Vehicle Replacement RST - The executive budget includes \$26,000 in FY 2008 to replace a vehicle used by division sanitarians for traveling to on-site locations to conduct milk and egg inspections for the state. The executive funds this request from milk assessment fees.

DP 5005 - Milk & Egg Out of State Travel - The executive budget adds \$6,362 in the 2009 biennium for increased out-of-state travel for the milk and egg sanitarians to maintain their credentials to perform their work. This decision package is funded with state special revenue from assessments on the milk industry.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	57.21	0.00	0.00	57.21	0.00	0.00	57.21	57.21
Personal Services	2,312,794	169,389	0	2,482,183	179,718	0	2,492,512	4,974,695
Operating Expenses	308,946	11,535	0	320,481	11,858	0	320,804	641,285
Equipment	35,288	120,712	0	156,000	94,712	0	130,000	286,000
Total Costs	\$2,657,028	\$301,636	\$0	\$2,958,664	\$286,288	\$0	\$2,943,316	\$5,901,980
State/Other Special	2,657,028	301,636	0	2,958,664	286,288	0	2,943,316	5,901,980
Total Funds	\$2,657,028	\$301,636	\$0	\$2,958,664	\$286,288	\$0	\$2,943,316	\$5,901,980

Program Description

The Brands Enforcement Division is responsible for livestock theft investigations, stray livestock investigations, brand inspections, recording of livestock brands, filing of security interests on livestock, livestock auction licensing, livestock dealer licensing, hide inspections, and beef inspections.

Program Highlights

Brands Enforcement Division Major Budget Highlights	
♦	The executive recommends the purchase of 11 replacement vehicles in the 2009 biennium, requiring an increase of \$215,000 from FY 2006
Major LFD Issues	
♦	None

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Brands Enforcement Divis						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 2,657,028	100.0%	\$ 2,958,664	100.0%	\$ 2,943,316	100.0%
02425 Inspection And Control	1,628,345	61.3%	1,731,100	58.5%	1,741,752	59.2%
02426 Lvstk Per Capita	1,028,683	38.7%	1,227,564	41.5%	1,201,564	40.8%
Grand Total	2,657,028	100.0%	2,958,664	100.0%	2,943,316	100.0%

Brands enforcement activities are funded from new and re-recorded brand fees, local and market inspection fees, livestock dealers license fees, and various other related assessments, all of which are deposited to the inspection and control state special revenue fund. The livestock per capita fund also supports activities in this division.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
Fiscal 2008					Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				191,384					202,145
Vacancy Savings				(100,164)					(100,596)
Inflation/Deflation				1,488					1,811
Fixed Costs				10,047					10,047
Total Statewide Present Law Adjustments				\$102,755					\$113,407
DP 6002 - Brand Division Vehicle Replacement RST/OTO									
0.00	0	120,712	0	120,712	0.00	0	94,712	0	94,712
DP 6003 - Overtime - Brand Enforcement Division									
0.00	0	78,169	0	78,169	0.00	0	78,169	0	78,169
Total Other Present Law Adjustments									
0.00	\$0	\$198,881	\$0	\$198,881	0.00	\$0	\$172,881	\$0	\$172,881
Grand Total All Present Law Adjustments				\$301,636					\$286,288

**LFD
COMMENT**

The statewide present law personal services adjustment includes the implementation and annualization of the 2007 biennium pay plan approved by the 2005 Legislature and restores personal services expenditures for base positions that were funded in FY 2006 from carry forward funds that are not part of the budget base funding.

DP 6002 - Brand Division Vehicle Replacement RST - The executive recommends replacing 11 of the division's 18 district investigator vehicles in the 2009 biennium and includes an additional \$215,424 in the 2009 biennium executive budget for this purpose. This decision package is funded in the executive budget from the livestock per capita fund.

DP 6003 - Overtime - Brand Enforcement Division - The executive budget includes the FY 2006 base amount of overtime, \$78,169, each year of the 2009 biennium, funded with the livestock per capita fund.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	19.50	0.00	1.00	20.50	0.00	1.00	20.50	20.50
Personal Services	728,751	96,344	32,807	857,902	98,816	32,844	860,411	1,718,313
Operating Expenses	279,748	31,836	60,348	371,932	33,382	56,048	369,178	741,110
Total Costs	\$1,008,499	\$128,180	\$93,155	\$1,229,834	\$132,198	\$88,892	\$1,229,589	\$2,459,423
General Fund	479,014	85,088	67,220	631,322	88,096	65,089	632,199	1,263,521
State/Other Special	6,475	0	0	6,475	0	0	6,475	12,950
Federal Special	523,010	43,092	25,935	592,037	44,102	23,803	590,915	1,182,952
Total Funds	\$1,008,499	\$128,180	\$93,155	\$1,229,834	\$132,198	\$88,892	\$1,229,589	\$2,459,423

Program Description

The Meat and Poultry Inspection Program was established in 1987 by the Montana Meat and Poultry Inspection Act. It implements and enforces a meat and poultry inspection system equal to that maintained by the U.S. Department of Agriculture and the Food Safety Inspection Service to assure clean, wholesome, and properly-labeled meat and poultry products for consumers.

Program Highlights

Meat and Poultry Inspection Program Major Budget Highlights	
♦	The executive replaces declining federal funds with general fund
Major LFD Issues	
♦	General fund would replace declining federal funds

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Meat/Poultry Inspection						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 479,014	47.5%	\$ 631,322	51.3%	\$ 632,199	51.4%
01100 General Fund	479,014	47.5%	631,322	51.3%	632,199	51.4%
02000 Total State Special Funds	6,475	0.6%	6,475	0.5%	6,475	0.5%
02427 Animal Health	6,475	0.6%	6,475	0.5%	6,475	0.5%
03000 Total Federal Special Funds	523,010	51.9%	592,037	48.1%	590,915	48.1%
03209 Meat/Poultry Inspection Sp Rev	523,010	51.9%	592,037	48.1%	590,915	48.1%
Grand Total	1,008,499	100.0%	1,229,834	100.0%	1,229,589	100.0%

The majority of meat and poultry inspection program funding is split evenly between federal funds and general fund. Per cooperative agreement with the U.S. Department of Agriculture, state special revenue funds cannot be used as match when they are derived through a fee on the producers being inspected by the program. Since state special revenues are generated from fees on those producers being inspected, the state match is provided by the general fund. A small portion of the program funding is state special revenue derived from annual meat establishment license fees.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2008						Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					130,724					133,299
Vacancy Savings					(34,380)					(34,483)
Inflation/Deflation					29,905					31,451
Fixed Costs					1,931					1,931
Total Statewide Present Law Adjustments					\$128,180					\$132,198
Grand Total All Present Law Adjustments					\$128,180					\$132,198

New Proposals

New Proposals										
Fiscal 2008						Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 1009 - Meat Inspection Funding Shortfall										
10	0.00	41,286	0	0	41,286	0.00	41,286	0	0	41,286
DP 1010 - Meat Plant Inspector RST										
10	1.00	22,673	0	22,674	45,347	1.00	20,542	0	20,542	41,084
DP 1011 - FAIM Computer Maintenance Contract										
10	0.00	3,261	0	3,261	6,522	0.00	3,261	0	3,261	6,522
Total	1.00	\$67,220	\$0	\$25,935	\$93,155	1.00	\$65,089	\$0	\$23,803	\$88,892

LFD COMMENT

The statewide present law personal services adjustment includes the implementation and annualization of the 2007 biennium pay plan approved by the 2005 Legislature and restores salaries and benefits for vacancy savings realized in FY 2006.

DP 1009 - Meat Inspection Funding Shortfall – The executive budget replaces federal funds with general fund due to an anticipated federal fund reduction for federal fiscal years 2006 and 2007. An additional \$41,286 general fund is included in each year of the 2009 biennium for this purpose.

**LFD
ISSUE**

General Fund proposed to backfill declining federal dollars

The executive budget proposes to increase general fund \$41,286 each year of the 2009 biennium due to an anticipated federal fund reduction. The legislature may wish to ask the department to describe the impact upon the program and the services it delivers if this federal fund decline was not backfilled with general fund.

Two years ago, the department received funds in FY 2005 from the temporary federal funds grant for meat inspectors to replace reduced funds, but did not request replacement funds from the 2005 legislature. The legislature may wish to evaluate the long-term prospects of the federal cooperative funding for this program and options for future funding.

DP 1010 - Meat Plant Inspector RST - The executive budget includes a restricted appropriation for \$86,431 for the employment of an additional meat inspector during the 2009 biennium, if workload increases. This decision package is funded 50 percent from state general fund and 50 percent from federal meat inspection funds.

DP 1011 - FAIM Computer Maintenance Contract (OTO)- The executive budget adds \$13,044 computer maintenance funds for computers purchased with a one-time-only appropriation in the 2007 biennium. This decision package is funded 50 percent from state general fund and 50 percent from federal meat inspection funds.

**LFD
COMMENT**

If federal meat inspection funds are decreasing, why are DP 1010 and DP 1011 in the executive budget?

Agency Proposed Budget

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	531.37	4.50	8.50	544.37	4.50	8.50	544.37	544.37
Personal Services	25,427,463	3,550,189	379,649	29,357,301	3,661,170	380,349	29,468,982	58,826,283
Operating Expenses	10,626,422	4,137,780	2,012,185	16,776,387	2,177,417	1,982,238	14,786,077	31,562,464
Equipment	1,105,964	240,208	1,390,000	2,736,172	49,984	390,000	1,545,948	4,282,120
Capital Outlay	121,347	13,771	0	135,118	13,771	0	135,118	270,236
Local Assistance	0	200,000	0	200,000	200,000	0	200,000	400,000
Grants	1,384,297	125,000	255,000	1,764,297	125,000	255,000	1,764,297	3,528,594
Transfers	809,421	150,475	5,000,000	5,959,896	167,930	5,000,000	5,977,351	11,937,247
Debt Service	380,807	98,013	0	478,820	98,013	0	478,820	957,640
Total Costs	\$39,855,721	\$8,515,436	\$9,036,834	\$57,407,991	\$6,493,285	\$8,007,587	\$54,356,593	\$111,764,584
General Fund	18,140,525	1,978,710	6,985,869	27,105,104	1,897,171	5,971,458	26,009,154	53,114,258
State/Other Special	20,004,366	6,292,327	2,150,965	28,447,658	4,369,544	2,136,129	26,510,039	54,957,697
Federal Special	1,710,830	244,399	(100,000)	1,855,229	226,570	(100,000)	1,837,400	3,692,629
Expendable Trust	0	0	0	0	0	0	0	0
Total Funds	\$39,855,721	\$8,515,436	\$9,036,834	\$57,407,991	\$6,493,285	\$8,007,587	\$54,356,593	\$111,764,584

Agency Description

The Department of Natural Resources is tasked to:

1. Manage the state trust land resource to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land
2. Protect Montana's natural resources from wildfires through regulation and partnerships with federal, state, and local agencies
3. Promote stewardship of state water, soil, forest, and rangeland resources, and regulate forest practices to protect water quality
4. Provide administrative, legal, and technical assistance and financial grants to the conservation districts and provide natural resource conservation and development programs
5. Resolve water resource use conflicts, manage state water projects, investigate water use violations, ensure dam safety compliance, and provide water adjudication support to the Water Court
6. Provide administrative support to the Reserved Water Rights Compact Commission to negotiate the settlement of reserved water rights claims of Indian Tribes and federal agencies
7. Provide administrative support to the Board of Oil and Gas Conservation to assist in conservation of oil and gas and prevention of resource waste through regulation of oil and gas exploration and production

The State Board of Land Commissioners, comprised of the Governor, State Auditor, Attorney General, Superintendent of Public Instruction, and Secretary of State, exercise the general authority, direction, and control over the care, management, and disposition of state lands under its administration. The department director is the chief administrative officer of the board.

Agency Highlights

Department of Natural Resources and Conservation	
Major Budget Highlights	
◆	The department is requesting present law adjustments totaling \$8.4 million over the biennium of which \$2.0 million are general fund requests
◆	The largest request seeks funding for repairs on state owned dams

Major LFD Issues

- ◆ The executive is requesting \$30.5 million in two supplemental appropriation bills
 - HB 15 will be \$5.0 million for FY 2006 fire costs
 - HB 3 will include \$25.0 million for FY 2007 fire costs and \$0.5 million to repay diversions from land trusts
- ◆ Alternative funding mechanisms for funding fires suppression may exist
- ◆ The results of HJR 36, the RIT study, may affect appropriations in RIT funds
- ◆ Constitutionality of the manner in which trust land administration is funded is in question

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes from the 2007 biennium
- Goals and objectives and their correlation to the 2009 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

2005 Legislative Initiatives

The legislature approved two major initiatives during the 2005 session. Those initiatives and subsequent outcomes are summarized below:

- Funding to expedite the water adjudication process was provided through imposing a water right fee. The Environmental Quality Council reviewed progress at each regularly scheduled meeting. While there are some data base issues remaining, the work is being completed.
- Additional general fund authority was provided to increase initial attack and county co-op resources to strengthen fire fighting resources. During FY 2006, DNRC deployed an additional 15 type-6 wild land fire engines and posted an initial attack rate of 96 percent. The department is on track to deploy an additional 15 engines in FY 2007. DNRC's initial attack rate for FY 2007 is currently at 94 percent.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the executive. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding					
2009 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
21 Centralized Services	\$ 4,720,054	\$ 1,407,998	\$ 183,000	\$ 6,311,052	6%
22 Oil & Gas Conservation Div.	-	4,760,909	-	4,760,909	4%
23 Conservation/Resource Dev Div	2,875,483	6,871,472	539,556	10,286,511	9%
24 Water Resources Division	14,757,901	10,954,781	398,457	26,111,139	23%
25 Reserved Water Rights Comp Com	1,607,649	-	-	1,607,649	1%
35 Forestry/Trust Lands	29,153,171	30,962,537	2,571,616	62,687,324	56%
Grand Total	<u>53,114,258</u>	<u>54,957,697</u>	<u>3,692,629</u>	<u>111,764,584</u>	<u>100%</u>

General fund supports operating costs across the department. The programs in the Forestry Division and the Reserved Water Rights Compact Commission receive the most general fund support. The agency receives funds from interest derived from the resource indemnity trust for projects and operational support. The grant and loan programs funded by the RIT interest are also managed by the agency. Other state special revenue is derived from fire protection taxes, oil and gas operating fees, forest improvement fees, and revenues retained from state land activities for administration costs.

Federal funds come from a variety of sources such as the Federal Emergency Management Agency, the United States Department of Agriculture, and the Bureau of Land Management.

Agency Narrative

2007 Biennium Fire Costs

The department is responsible for wildland fire suppression, including the financial aspects of assuring costs are covered through appropriate resources. Financial results for FY 2006 and an estimate for FY 2007 are included to provide an overview of the varying costs and available resources for funding fire suppression.

Figure 1 FY 2006 Estimated Fire Costs		
PART 1:		
<u>Actual Fire Costs</u>		
Actual Fire Suppression Costs Paid	\$8,271,807	
Estimated Remaining State Protection Costs	<u>\$30,505</u>	
Paid & Anticipated Obligations		<u>\$8,302,312</u>
PART 2:		
<u>Received and Estimated Reimbursements</u>		
Governor's Emergency Fund (general fund)	(688,022)	
Department of Environmental Quality - Columbus Tire Fire	(55,123)	
Trust Land Management Division - Center Loop/SJ Fires	(7,937)	
Bureau of Land Management	(74,429)	
US Fish & Wildlife Service	(53,495)	
US Forest Service - Fire	(1,477,020)	
US Forest Service -Hurricane	(352,157)	
Bureau of Indian Affairs	<u>(153,525)</u>	
Reimbursements Received:		<u>(\$2,861,708)</u>
USFS-Fire	(320,183)	
USFS-Hurricane	<u>(\$58,151)</u>	
Reimbursements Anticipated:		<u>(\$378,334)</u>
Estimated FY 2006 State Fire Costs		<u>\$5,062,270</u>

Fiscal 2006

Part one of Figure 1 represents the total cost to the Department of Natural Resources and Conservation (DNRC) and the Department of Military Affairs (DMA) for fire suppression efforts for FY 2006. This cost includes the amount owed from the US Forest Service for providing disaster assistance in the aftermath of hurricane Katrina. As of July 2006, the state has paid \$8.3 million to cover suppression costs and has about \$30,000 in costs remaining.

Part two defines the net cost of fire suppression incurred by DNRC. Financial assistance for fire costs was provided by a number of entities. The two largest being the US Forest Service for \$1.4 million and the Governor's emergency fund for \$0.7 million (general fund). The department anticipates receiving an additional \$0.4 million from the US Forest Service.

When all assistance is accounted for, total assistance received from other entities is \$ 3.2 million. The net cost to the state is therefore \$5.1 million. The department obtained authority to pay these costs by receiving approval for an appropriation transfer. This resulted in the department transferring \$5.0 million (\$2.5 from the Forestry Division and \$2.5 from the Water Resources Division) from FY 2007 to FY 2006 to meet fire suppression obligations. To restore this authority, the executive has requested a supplemental appropriation in the same amount via HB 15.

Fiscal 2007

Part one of Figure 2 represents the total cost for FY 2007. As of November 8, 2006 the department has paid out \$16 million, an additional \$43.9 million is anticipated for incurred costs, and \$1.0 million has been estimated for spring 2007 fires.

Figure 2		
Fiscal Year 2007 Estimated Fire Costs*		
<u>PART 1:</u>		
<u>FY 2007 Actual & Estimated Fire Costs</u>		
Actual Fire Suppression Costs Paid as of November 8, 2006	\$16,032,075	
Estimated remaining costs:	43,968,243	
Estimated spring 2007 fire costs	<u>\$1,000,000</u>	
Paid & Anticipated Obligations		<u>\$61,000,318</u>
<u>PART 2:</u>		
<u>Received and Estimated Reimbursements</u>		
Governor's Emergency Fund (general fund)	(13,000,000)	
US Forest Service	<u>(\$2,000,000)</u>	
Reimbursements Received:		(15,000,000)
Federal Agencies	(6,311,320)	
Federal Emergency Management Agency	<u>(\$14,979,608)</u>	
Reimbursements Anticipated:		(21,290,928)
FY 2007 Preliminary Net Cost to the State		<u>\$24,709,390</u>
FY 2006 Net Cost to the State		5,062,270
Total 2007 Biennium Costs		<u>\$29,771,660</u>
* All cost information is base upon the best available estimates at the time of completion and is subject to adjustment. Cost share fires are constantly in negotiation until final settlement.		

Part 2 of Figure 2 defines the net cost of fire suppression to be incurred by DNRC. The department has received \$13.0 million from the Governor's emergency fund and \$2.0 million from the US Forest Service. Anticipated reimbursements include an additional \$6.3 million from federal agencies and \$14.9 million from the Federal Emergency Management Agency (FEMA). FEMA provided three emergency declarations during the summer fire season. The declarations are date and time sensitive. The department anticipates receiving 60 percent of qualifying costs for the Derby, Saunders, and Emerald Ridge Fires.

After all reimbursements are considered, the anticipated net fire suppression cost for FY 2007 is \$24.7 million. The executive is requesting supplemental appropriation authority of \$25.0 million of general fund in HB 3.

Total costs incurred for the 2007 biennium are estimated at \$29.7 million, all of which will need to be funded with supplemental appropriation authority. Alternatives to funding fire suppression are addressed in the agency issue section of this document.

Biennium Budget Comparison

The following table compares the executive budget request in the 2009 biennium with the 2007 biennium by type of expenditure and source of funding. The 2007 biennium consists of actual FY 2006 expenditures and FY 2007 appropriations.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	Present Law Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Biennium Fiscal 06-07	Total Exec. Budget Fiscal 08-09
FTE	535.87	8.50	544.37	535.87	8.50	544.37	531.37	544.37
Personal Services	28,977,652	379,649	29,357,301	29,088,633	380,349	29,468,982	49,155,278	58,826,283
Operating Expenses	14,764,202	2,012,185	16,776,387	12,803,839	1,982,238	14,786,077	20,602,409	31,562,464
Equipment	1,346,172	1,390,000	2,736,172	1,155,948	390,000	1,545,948	2,166,464	4,282,120
Capital Outlay	135,118	0	135,118	135,118	0	135,118	124,422	270,236
Local Assistance	200,000	0	200,000	200,000	0	200,000	250,000	400,000
Grants	1,509,297	255,000	1,764,297	1,509,297	255,000	1,764,297	2,632,798	3,528,594
Transfers	959,896	5,000,000	5,959,896	977,351	5,000,000	5,977,351	1,620,487	11,937,247
Debt Service	478,820	0	478,820	478,820	0	478,820	948,621	957,640
Total Costs	\$48,371,157	\$9,036,834	\$57,407,991	\$46,349,006	\$8,007,587	\$54,356,593	\$77,500,479	\$111,764,584
General Fund	20,119,235	6,985,869	27,105,104	20,037,696	5,971,458	26,009,154	32,101,504	53,114,258
State/Other Special	26,296,693	2,150,965	28,447,658	24,373,910	2,136,129	26,510,039	41,522,186	54,957,697
Federal Special	1,955,229	(100,000)	1,855,229	1,937,400	(100,000)	1,837,400	3,876,789	3,692,629
Expendable Trust	0	0	0	0	0	0	0	0
Total Funds	\$48,371,157	\$9,036,834	\$57,407,991	\$46,349,006	\$8,007,587	\$54,356,593	\$77,500,479	\$111,764,584

Supplemental Appropriations: The department is seeking three supplemental appropriations. The two requests for fire suppression are discussed in the agency narrative. The request for repayment to trusts for diversion of revenues is discussed in the agency issues section.

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	Fiscal 2008				Fiscal 2009				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2203 - O&G Public Assess Data System IT										
22	1.00	0	212,669	0	212,669	1.00	0	212,696	0	212,696
DP 2204 - O&G Education & Outreach BIEN										
22	0.00	0	62,500	0	62,500	0.00	0	62,500	0	62,500
DP 2205 - O&G North American Prospect Exposition (NAPE) BIEN										
22	0.00	0	7,500	0	7,500	0.00	0	7,500	0	7,500
DP 2208 - Temporary Relocation Costs RST/OTO/BIEN										
22	0.00	0	32,500	0	32,500	0.00	0	32,500	0	32,500
DP 2303 - Irrigation Assistance										
23	0.00	0	150,000	0	150,000	0.00	0	150,000	0	150,000
DP 2308 - Missouri River Council										
23	0.00	0	128,200	0	128,200	0.00	0	133,240	0	133,240
DP 2311 - Conservation District Watershed Position										
23	1.00	0	70,000	0	70,000	1.00	0	70,000	0	70,000
DP 2314 - Conservation Dist Operating-Coal Bed Methane RST										
23	0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,000
DP 2403 - Water Rights Records Optical Imaging-ITSD										
24	1.00	0	117,961	0	117,961	1.00	0	117,978	0	117,978
DP 2405 - Yellowstone Compact Study and Hydrologist RST										
24	1.00	119,602	0	0	119,602	1.00	113,794	0	0	113,794
DP 2406 - St. Mary Administrative Position										
24	0.50	0	20,027	0	20,027	0.50	0	18,534	0	18,534
DP 2407 - Upper Clark Fork Steering Committee										
24	0.00	0	20,000	0	20,000	0.00	0	20,000	0	20,000
DP 2411 - Map Modernization Program State Match IT										
24	0.00	115,000	0	0	115,000	0.00	115,000	0	0	115,000

New Proposals										
Program	FTE	Fiscal 2008				FTE	Fiscal 2009			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 2412 - Surface Water/Ground Water Permitting Process (Requires Legislation)										
24	3.00	146,367	21,871	0	168,238	3.00	137,764	20,585	0	158,349
DP 2413 - DFWP Dam Engineer										
24	0.00	0	0	0	0	0.00	0	0	0	0
DP 2501 - RWRCC Contracted Services OTO										
25	0.00	97,500	0	0	97,500	0.00	97,500	0	0	97,500
DP 3501 - Radio Communications IT RST										
35	0.00	257,400	132,600	0	390,000	0.00	257,400	132,600	0	390,000
DP 3502 - Urban Forestry Funding Change										
35	0.00	0	100,000	(100,000)	0	0.00	0	100,000	(100,000)	0
DP 3503 - Fire Fighting Equipment - Rst/Bien/OTO										
35	0.00	1,000,000	0	0	1,000,000	0.00	0	0	0	0
DP 3504 - On-Going General Fund Support for Fire Fighting										
35	0.00	5,000,000	0	0	5,000,000	0.00	5,000,000	0	0	5,000,000
DP 3530 - NELO Land Use Specialist										
35	1.00	0	55,137	0	55,137	1.00	0	52,996	0	52,996
DP 3533 - Habitat Conservation Plan (HCP) Implem & Monit										
35	0.00	0	120,000	0	120,000	0.00	0	105,000	0	105,000
DP 3535 - Land Exchange Reimbursement										
35	0.00	0	300,000	0	300,000	0.00	0	300,000	0	300,000
DP 3542 - Reliance Refinery Remediation-BIE/OTO										
35	0.00	0	500,000	0	500,000	0.00	0	500,000	0	500,000
DP 3549 - Woody Biomass Utilization Program - OTO										
35	0.00	250,000	0	0	250,000	0.00	250,000	0	0	250,000
Total	8.50	\$6,985,869	\$2,150,965	(\$100,000)	\$9,036,834	8.50	\$5,971,458	\$2,136,129	(\$100,000)	\$8,007,587

Agency Issues

Fire Costs and Funding Options

Suppression Costs

As discussed in the Agency Narrative section, Montana has incurred obligations for fire suppression costs of over \$34 million for the biennium. The legislature does not establish an appropriation for fire suppression costs. Historically, fire costs have been paid temporarily from the Forestry Division's general fund appropriation and through a statutory emergency appropriation if an emergency or disaster is declared. The department is then reimbursed and all other bills, except those paid with emergency appropriation authority, are funded through a supplemental appropriation. Consequently all funding come from the state's general fund ending balance and any determination of that balance must take into account the likely obligation. This discussion will establish the current average cost, describe impacts on costs, and establish fire suppression funding options for legislative consideration.

Average Cost of Fire Season

The most significant statistic rising from this fire season is the impact the estimated cost has had on the average cost of fire season. The Legislative Fiscal Division calculates this cost by analyzing the last seven years of fire bills, removing the high and low seasons and dividing by five. Prior to this season the average was approximately \$7.0 million per year. Given the estimated cost per date this statistic has risen to \$13.3 million per year, or \$26.6 million over the biennium. This cost renders the Governor's emergency fund, \$16 million per biennium, insufficient to cover wildland fire suppression costs. Figure 3 below provides a snap shot of historic fire costs.

Figure 3 Average Cost of Fire Suppression			
Fiscal Year	Total Cost	Reimbursements	Net Cost
2001	\$54,925,104	\$44,784,017	\$10,141,087
2002	16,417,193	3,549,700	12,867,493
2003	6,710,688	4,684,927	2,025,761
2004	79,579,965	44,582,841	34,997,124
2005	3,969,096	989,945	2,979,151
2006	8,806,797	3,066,927	5,739,870
2007	61,000,318	23,290,928	37,709,390
7 year averages	\$33,058,452	\$17,849,898	\$15,208,554
5 year adjusted average	\$29,572,020	\$15,835,065	\$13,344,945

Increased costs

The average cost of fires is also increasing. There are several reasons why the state costs of fighting wildland fires are increasing beyond the general severity of fire season, including decreased federal assistance, fire locations, (wildland urban interface) competition for resources, and increased fuel costs.

Decreased Federal (FEMA) assistance

During the 2000 fire season (FY 2001), Montana was provided blanket approval for financial assistance from the head of FEMA when he toured the fires with Senator Max Baucus. In FY 2004, the state received assistance based on the established criteria wherein 50 structures were threatened. For the FY 2007 fire season, FEMA raised that threshold to 100 homes. This change is a result of FEMA standardizing threshold criteria across the nation. Given the changes, Montana qualified for FEMA assistance on only three fires in FY 2007, the Saunders, Emerald Hills, and the Derby Fires, while other large fires such as Bundy Railroad, Pine Ridge, Packer Gulch and Jungle did not qualify.

Each FEMA declaration is date and time sensitive. Therefore, the state receives 75 percent assistance towards allowable costs within the declaration period. Because of this, the Emerald Hills assistance payment will be nominal. The Saunders fire and the Derby fire assistance payments will be approximately 60 percent of total costs.

Fire in the Wildland Urban Interface

Structure protection is more costly than wildland fire suppression. When homes, outbuildings and commercial buildings are in the path of the wildland fire, fire line tactics become more limited and additional resources are utilized to protect those structures in addition to those deployed to suppress the fire. A fire in a region without (or with few) buildings is generally easier and less costly to suppress.

Competition for Resources

During the FY 2001 and FY 2004 fire seasons, Montana was the hot spot and nationwide resources were directed to the state to suppress fire. During the FY 2007 fire season, however ten of the eleven national coordinating centers were experiencing large wildland fires. Hence, Montana fires had to compete for resources such as retardant planes, hot shot crews, and large helicopters.

When the Derby fire broke, most of the major equipment in the area was already dispatched to the Emerald Hills fire. Resources remained at Emerald Hills until such time that structure protection was secured. By the time resources were released to Derby, the firestorm of August 30, 2006 was just starting. During the storm, the fire line moved five miles in a twenty minute period. Shortly after this event, the Derby fire became the first priority wildfire for resources in the region, and made the region the highest priority in the nation for several days.

Increased Fuel Costs

The last major fire season was in FY 2004. Trucks, dozers, planes, and helicopters are key fire fighting tools. Therefore, there is no doubt that the price of fuel has had a major impact on wildland fire suppression costs. Since then the prices of gasoline, diesel and aviation fuel have risen significantly. Figure 4 demonstrates the change in prices between calendar year 2003 and May of 2006. All fuel categories have at least doubled since the last major wildland fire season.

Figure 4 Refiner Prices of Petroleum Products to End Users* Cents Per Gallon			
Year	2003	2006	% Change
Motor Fuel	115.6	246.1	113%
Aviation Fuel	149.3	301.3	102%
# 2 Diesel	94.4	226.2	140%
*Energy Information Administration (8/26/2006)			

Suppression Funding

Since suppression costs are not provided upfront funding through an appropriation by the legislature, DNRC does not have additional authority (and associated cash) specifically provided to pay these costs. DNRC must use a combination of tactics, including moving appropriations between programs and fiscal years, accessing the Governor's emergency fund and even taking general fund loans to come up with the authority to pay the bills as they become due. If these tactics leave the agency short of appropriation authority before the legislature meets in regular session to provide authority, a special session of the legislature may become necessary to secure that authority.

Options

To address the complexities of funding wildland fire suppression, three general fund options can be considered: a statutory appropriation, a line item appropriation, or a change in the Governor’s emergency fund. With all options, if a fire season exceeds the annual average cost, DNRC would still need to manage cash until the legislature could meet and provide a supplemental appropriation for the remaining costs.

Statutory appropriation

A statutory appropriation of \$13.3 million per year or \$26.6 million over the biennium for the sole purpose of wildland fire suppression could be established through legislation. This would provide appropriation authority to the department to pay for wildland fire costs without utilizing appropriation authority from other programs in most years. In addition, the legislature would not have to appropriate these funds each session. The challenges to this option are:

- Subsequent legislation would be required to change the amount
- It is potentially duplicative of the Governor’s emergency fund

Line item appropriation

The legislature could also provide a line item appropriation for wildland fire suppression. A one-time only, restricted, biennial appropriation of \$26.6 million could provide the department access to general fund authority to cover the cost of wildland fire suppression. The conditions would keep the appropriation out of the department’s base budget, limit the appropriation to suppression only, and provide the flexibility to utilize the funds in either year of the biennium. The legislature could then appropriate funds based on historical averages, current wildland fire conditions, and the availability of general fund. If funds are not needed, the appropriation is not available for other purposes. The challenges to this option are:

- HB 2 appropriations are temporary
- It is potentially duplicative of the Governor’s emergency fund
- It may unnecessarily reduce the amount of funds available for other purposes

Increase Governor’s Emergency Fund

If providing an appropriation is not acceptable, a further option is to consider increasing the size of the Governor’s emergency fund to \$26.6 million. Currently, 10-3-312, MCA limits the Governor to \$16.0 million in any biennium for emergency purposes, including wildland fire suppression. The fund is only available for fire suppression costs when the conditions in 10-3-301, MCA are met and a disaster is declared. Not all fire seasons result in declared disasters. To this end the legislature could clarify statute to allow access to this fund for those fire suppression costs that do not fall within a declared disaster. The challenges to this option are:

- The fund can be used for other emergencies in addition to fire suppression
- Without changes, only declared disasters qualify for funding

Creating a state special revenue fund

A revolving fund approach could be established if the legislature does not want to utilize general fund on an on-going basis. The source of revenue to the revolving fund could be the payments the state receives from other entities for fire suppression activities. Predominantly the funds come from federal agencies such as the Bureau of Land Management, US Forest Service, and the National Park Service and are used directly to offset the costs to the general fund.

The idea behind a revolving fund is to deposit payments into a separate fund to be utilized in the next fire season. DNRC officials would know the size of the fund prior to the next fire season. Since this would be a state special revenue fund, the appropriation authority could be established through the budget amendment process as fire suppression activities occur under the statute’s emergency provision, rather than HB 2 or in statute. Statute could also be clarified to allow costs without a determination of an emergency. This would provide access on an as needed basis for the sole purpose of suppression.

Since federal reimbursements are deposited to a federal fund and used to pay the related expenditures, the reimbursements are generally passed through the system. In order to establish a revolving fund, the legislature would need to approve a general fund transfer to provide seed money to the fund. The challenges to this option are:

- Detailed legislation would be required to establish the fund and subsequent process
- May be seen as duplicative to the Governor's emergency fund
- General fund transfer is needed to start the fund

Summary & Options

The cost of wildland fire suppression will continue to be incurred on an annual basis. Whether a mild or severe season, Montana can anticipate spending, on the average, \$13.3 million per year. The legislature has the ability to appropriate funds for this cost and avoid placing DNRC in a cash crunch situation every fire season.

Of the four options, two are addressed in proposed legislation. LC 711 by the Governor proposes to increase the emergency fund from \$16.0 to \$25.0 million. The proposed legislation does not eliminate the need for disaster declaration to access the funds.

LC 545, requested by the Legislative Finance Committee, proposes to establish a wildland fire suppression fund. This legislation includes a one time transfer of \$25.0 million of general fund to establish the new fund. The executive's budget request includes an additional deposit of \$5.0 million per year to the fund and each year thereafter.

The legislature has the option to enact the remaining two options by:

- Requesting legislation to establish a statutory appropriation
- Requesting a line item appropriation in HB 2 during the 2007 session

Increased federal uncertainty

At the time of this analysis, the US Department of Agriculture (USDA) Office of Inspector General released an audit report titled "Forest Service Large Fire Suppression Costs". The report concluded the following:

- Suppression costs need to be fairly shared by state and local governments
- Use of wild land fire (by the US Forest Service) should be expanded to control costs of future fires
- Forest Service cost-containment controls need to be strengthened

The audit recommendations were accepted by the Forest Service and it is anticipated that they will implement changes to USFS policy to meet the recommendations. This could have significant impact on the department's protection and suppression programs. The timing of this audit did not allow for full analysis by the LFD staff. The analysis will be completed and presented to the subcommittee as part of the wildland fire suppression discussions.

Resource Indemnity Trust

Article IX of the Montana Constitution provides for the protection and improvement of the Montana environment and requests that the legislature provide adequate remedies for environmental protection from degradation. It specifically requires "all lands disturbed by the taking of natural resources shall be reclaimed", and requires the existence of a resource indemnity trust (RIT) fund for that purpose, to be funded by taxes on the extraction of natural resources.

The department receives \$3.2 million annually in RIT related funding to provide a number of natural resource related activities. In addition, HB 6 and HB 7 provides approximately \$10.0 million in grants and loans from RIT sources, which the department manages.

RIT Distributions and Tax Proceeds

The legislature provides for statutory allocation of the resource indemnity and ground water assessment and applicable portions of the oil & gas tax that originally funded the RIT. The Resource Indemnity Groundwater Assessment (RIGWA) and the applicable portion of the oil & gas tax are now distributed to a number of natural resource accounts. RIGWA – The first \$460,630 is deposited into the Superfund debt service account and the second \$366,000 is deposited into the ground water assessment account. The remaining funds are distributed 50 percent into the reclamation and development grant program account and any remaining funds to the orphan share account.

Applicable portion of the oil and gas taxes – 2.95 percent is deposited to the reclamation and development grant program account, and 2.95 percent to the orphan share account.

Prior to the RIT trust meeting the corpus constituency set \$100 million threshold, 7 percent of the Metalliferous Mine License Tax was deposited to the RIT. This deposit is now made to the reclamation and development account.

During the 2005 session, concern about the solvency of two RIT accounts, hazardous waste/CERCLA and the environmental quality protection fund, was raised. Legislation was passed to provide the ability to transfer up to \$600,000 from the orphan share account to prevent a negative balance in either account. If this transfer occurs, the hazardous waste/CERCLA and environmental quality protection funds must reimburse the orphan share account when funds become available.

RIT Distributions –Interest Allocations

Allocations of RIT interest earnings are not restricted by the constitution. The legislature has chosen to directly and indirectly allocate interest for a number of purposes.

Direct Allocations: 15-38-202 MCA directs where the interest from the RIT is allocated. Direct allocations are made to a number of sources. Allocations to the environmental contingency account, oil and gas production mitigation account and the water storage account are made at the beginning of the biennium. The other allocations are made at the beginning of each fiscal year.

Indirect Allocations: After direct interest allocations are made, 15-38-202 directs the remaining interest on a formula basis. In FY 2005 the formula provided: 25.5 percent to the renewable resources grant and loan account, 45 percent to the reclamation and development grant program account, 22 percent to the hazardous waste/CERCLA account and 7.5 percent to the environmental quality protection fund.

Accounts Receiving RIT Related Revenue

RIT interest allocations, RIGWA allocations, applicable portions of the oil and gas taxes and a portion of the metalliferous mine tax are directed toward a variety of natural resource accounts. From those accounts appropriations are made by the legislature to support natural resource agencies and activities. The major accounts of importance are as follows:

- Ground water assessment account - funds groundwater monitoring and characterization studies
- Renewable Resource Grant and Loan Program - provides grants and loans to enhance Montana’s renewable resources through projects that measurably conserve, develop, manage or preserve resources
- Reclamation and Development Grant Program - provides grants to repair, reclaim, and mitigate environmental damage to public resources from non-renewable resource extraction
- Orphan Share Account-used to fund the percent of remediation activities at a contaminated site that are attributable to a bankrupt or otherwise insolvent entity
- Hazardous Waste/CERCLA - funds the implementation of the Montana Hazardous Waste Act and state expenses for overseeing the federal Comprehensive Environmental Response, Compensation and Liability Act
- Environmental Quality Protection Fund - utilized to identify, investigate, negotiate and prosecute individuals/entities to achieve remedial action or recover costs and damages
- Coal Bed Methane Protection Account– available to compensate private landowners or water right holders for damage caused by coal bed methane development after July 1, 2005
- 6 mill University System- funds to support the Montana University System
- Environmental Contingency Account- an account controlled by the Governor for the purpose of responding to emergent or imminent threats to the environment
- Future Fisheries - use of funds to reclaim habitat and spawning areas of the bull and cutthroat trout
- Oil & Gas Production Mitigation Account - funds for properly plugging a well and either reclaiming or restoring, or both, a drill site or other drilling or producing area damaged by oil and gas operations
- Water Storage Account - used for grants and loans to fund water storage projects

Tax Descriptions

- Resource Indemnity and Ground Water Assessment (RIGWA) - taxes paid by person(s) who engages in or carries on the business of mining, extracting, or producing a mineral from any quartz vein or lode, placer claim, dump or tailings, or other place or source
- Metalliferous Mines License Tax - license tax on person(s) engaged in or carrying on the business of working or operating any mine or mining property in this state from which gold, silver, copper, lead, or any other metal or metals or precious or semiprecious gems or stones are produced
- Oil and Gas Taxes - taxes on the production of oil and gas

HJR 36 Study

HJR 36 was proposed as a means to address the multiple issues associated with the RIT and related funds that were identified through the budget analysis and appropriations process during the 2005 Legislature. This included such issues as: fund utilization in conflict with statutes, confusion regarding the flow of interest income and taxes, and coordination among multiple agencies. To meet the terms of the resolution, the Legislative Finance Committee (LFC) established an RIT subcommittee to complete the tasks. The LFC adopted the full recommendations of the RIT subcommittee.

Prioritization of Activities

The RIT subcommittee utilized program information and standardized program presentations from the affected departments to establish a priority ranking for each program funded all or in part with RIT dollars. This allowed the sub-committee to identify programs that may or may not be consistent with the statutory use of RIT funds and may or may not be a benefit to the state. The results are summarized in Figure 5.

In this process, an entity could rank low if one of the criteria was scored consistently low. For example, the subcommittee recognized the importance of the water quality programs at Montana State University – Northern, but questioned the alignment with RIT funding since the funds were utilized for infrastructure purposes.

Recommendations

After the consideration of staff research, department testimony, and information, the subcommittee developed recommendations in three areas. There are three types of recommendations: 1) requiring legislation; 2) other recommendations; and 3) red flags.

Recommendations Requiring Legislation

The LFC has requested legislation to implement all recommendations. The following issues are addressed in the LFC bill (LC 0147).

Statutory Clean up

All fund statutes are to be clear in regard to fund purpose and fund utilization. This change would enable the legislature to tie an activity to a fund source and potentially an appropriation, and could eliminate the issues of paying for programs not related to the fund source. This includes removing requirements in statute (i.e. water storage grant and loan program) that have never been developed or are no longer appropriate.

Figure 5
RIT Subcommittee Program Ranking

Rank	Program	Score
1	Renewable Resources Grant & Loans	31
	Reclamation and Development Grants	31
	Assessment	31
	Oil & Gas Damage Mitigation	31
	St Mary's Reauthorization Staff	31
2	Orphan Share Program	29
	Conservation Districts	29
3	Environmental Quality Protection Fund	28
	State Water Projects	28
4	Hazardous Waste Mgmt	27
5	Hazardous Waste/CERCLA	26
	Local Water Quality Districts	26
6	Coal/Uranium Mining	25
	Hardrock Mining	25
	Wellhead Planning	25
7	Flathead Basin Commission	23
	Public Water Supply	23
	Zortman Landusky Trust	23
8	Underground Tanks	22
9	Permitting & Compliance (DEQ) Admin	21
10	Irrigation Development	20
	DEQ Enforcement Division	20
	Environmental Contingency Account	20
	Water Court	20
	Natural Resource Information System	20
11	DEQ Attorney Pool	19
	Open Cut Mining	19
	Clark Fork Task Force	19
	Attorney General Services	19
12	Water Pollution - 106	18
13	Watershed Fiscal (DEQ)	15
14	Future Fisheries	13
15	MSU - Northern	11
16	Natural Resources Scholarship	11

(1) The ranking of the scholarship program was not completed by all members of the subcommittee as the statute providing for the program sunsets in June of 2007. The Department of Labor and Industry supports the sun setting of this program because the state has received federal funding for displaced natural resource workers, and the scholarship fund has not been widely used.

Revise allocation of RIGWA taxes

The cash balance in the hazardous waste fund (HW) and the environmental quality protection fund (EQPF) is dependent upon the ability to transfer funds from the orphan share fund. Each fund needs a stable income source in order to meet basic statutory requirements for the hazardous waste program and the state Superfund program. The proposed legislation allocates approximately \$630,000 of RIGWA taxes each biennium equally to the HW and EQPF funds rather than depositing the funds to the orphan share. This would remove the orphan share fund from the RIT matrix, as it would no longer receive revenue from RIGWA taxes. The orphan share currently receives ten percent of total revenue from RIGWA taxes.

Eliminate Statutory Appropriations of RIT Interest

Two programs currently receive statutory appropriations for RIT interest. First, the oil and gas damage mitigation fund receives \$50,000 per biennium to provide funding for the administrative oversight of priority reclamation and development grants to plug abandoned wells. This appropriation could be handled through HB2 as the expenditure is predictable and the funding is from a stable source. In the proposed legislation, this statutory appropriation is eliminated. The executive has asked for spending authority in HB 2.

The second statutory appropriation of RIT interest is for \$240,000 per year to Montana State University – Northern for the purpose of providing funding for 2.76 FTE for science and water programs with the remaining funds budgeted for debt service on laboratory renovations. In the proposed legislation this statutory appropriation is eliminated.

Remove Cap on Groundwater Assessment Fund

The Montana Bureau of Mines has been operating on a \$666,000 appropriation for the last three biennia. Because of this fixed funding level, during the 2005 session they received one-time-only funding of RIT corpus in excess of the constitutionally required \$100 million, to cover the increased costs of personal services and travel. Statute describing the fund limits the fund balance to \$666,000 and directs all other grants and donations to the program to be deposited to the fund. The cap prevents the program from actively seeking additional funding. The proposed legislation eliminates the cap in statute.

Re-design the Renewable Resource and Reclamation and Development Funds

The renewable resource and reclamation and development funds were established to provide funding for grant and loan programs. Over time the funds have been utilized for other programs and activities, as appropriations were made based on the availability of funds, rather than the statutory purpose of the fund. The LFC recommends that these funds be redesigned to meet two goals:

- Provide a fund for the renewable resource and reclamation and development grant and loan programs
- Provide a fund for other natural resource related activities

In the proposed legislation the renewable resource fund is renamed the natural resources projects fund. This fund would receive the revenues currently directed to the grant and loan program in statute. Appropriations for the grant and loan program and the corresponding administrative costs would be made from this fund.

In addition, the former reclamation and development fund would be renamed the natural resources operations fund. This fund would receive revenues directed to the reclamation and development fund and the renewable resource funds that are not specifically allocated to the grant and loan programs. Appropriations would be made from this fund for the following activities:

- Operation of the Water Court
- Department of Environmental Quality Programs
 - Attorney Pool
 - Enforcement
 - Coal and Uranium Mining
 - Hard Rock Mining
 - Open Cut Mining

- Permitting and Compliance Administrative functions
-
- Department of Natural Resources and Conservation Programs
 - Conservation Districts
 - Clark Fork Task Force
 - St. Mary's Rehabilitation Project Staff
 - Flathead Basin Commission
 -

Transfer balance of Natural Resources Scholarship Fund

During the study, the Department of Labor and Industry (DOLI) notified the RIT subcommittee of their desire to see the Natural Resources Scholarship program sunset in June 2007 as statute currently reads. DOLI has been receiving federal funds for this purpose and therefore the fund has not been widely used. The proposed legislation allows the statute to sunset and the remaining fund balance to be transferred to the water storage fund to assist with the backlog of rehabilitation projects on state owned water projects.

Increase reporting requirements

LC 0148 is a second piece of RIT related legislation. This legislation amends the future fisheries statute to clarify the type and scope of information to be provided to a specific body of the legislature regarding the investment in the future fisheries program. Current statute directs the report to the legislature as a whole and does not provide adequate planning information.

Recommendations – Not Requiring Legislation

Request Performance Audits

The LFC recommended to the Legislative Audit Committee two programs for performance audits; the Orphan Share Program and the Future Fisheries Program.

Orphan Share Program

The Orphan Share Program was designed to cover the cost of defending the orphan share (portion of the clean up attributable to an economically defunct party) and paying for the orphaned portion of the cleanup. Over the past three biennia, the legislature has appropriated the same amount of funding for the same two sites. The executive is requesting the same appropriation for the 2009 biennium. The intent of the request was to have the process reviewed in order to determine if there are particular policies or statutes that are inhibiting the ability to achieve remediation at these sites. The LAC approved this request and the audit is scheduled to begin in the spring of 2007.

Future Fisheries

The Future Fisheries Program provides on-the-ground support to landowners to improve habitats. This program also receives funding from the river restoration fund and the general license account. The intent of the request was to determine if mineral reclamation projects are a priority, how the management of multiple funding sources within the program occurs, if monitoring of projects occurs, and what the measurable outcomes are to determine success of this program. The LAC did not approve this request.

Red Flags

During the process issues arose that are related to RIT programs but were not within the parameters of the study. They are the backlog of rehabilitation of state water projects and the funding formula for the Natural Resources Information System (NRIS).

- State Water Projects Bureau - There are thirteen state owned water projects on the anticipated future rehabilitation cost estimate worksheet requiring \$24.75 million in repairs. This does not include potential work on state owned canals. The appropriation of \$500,000 of RIT interest per biennium may not allow effective

rehabilitation of state owned projects. This issue is further addressed in the Water Resources Division budget analysis.

- The funding formula for the NRIS in the Montana State Library is complex. RIT related funds are directly appropriated to the program and additional RIT funds are appropriated to agencies and then transferred to the Library in support of NRIS. A simpler funding mechanism may be available to assure continual access to the NRIS system. Options for this issue are addressed in the State Library’s budget analysis in Volume 7.

Executive Budget & Proposed Legislation

The proposed legislation does provide some relief on the issues identified prior to and during the HJR 36 study. This includes reallocation of RIGWA taxes to eliminate inter fund transfers, consolidation of grant and loan programs, elimination of two funds from the RIT matrix, and clarification of utilization of related funds.

The proposed changes are addressed in two formats. First, the flow of revenues is illustrated in Figures 6 and 7. Current statutory allocations of revenue are represented by Figure 6 and the proposed legislation is represented in Figure 7. This provides a visual flow of revenues if LC0147 is passed and approved.

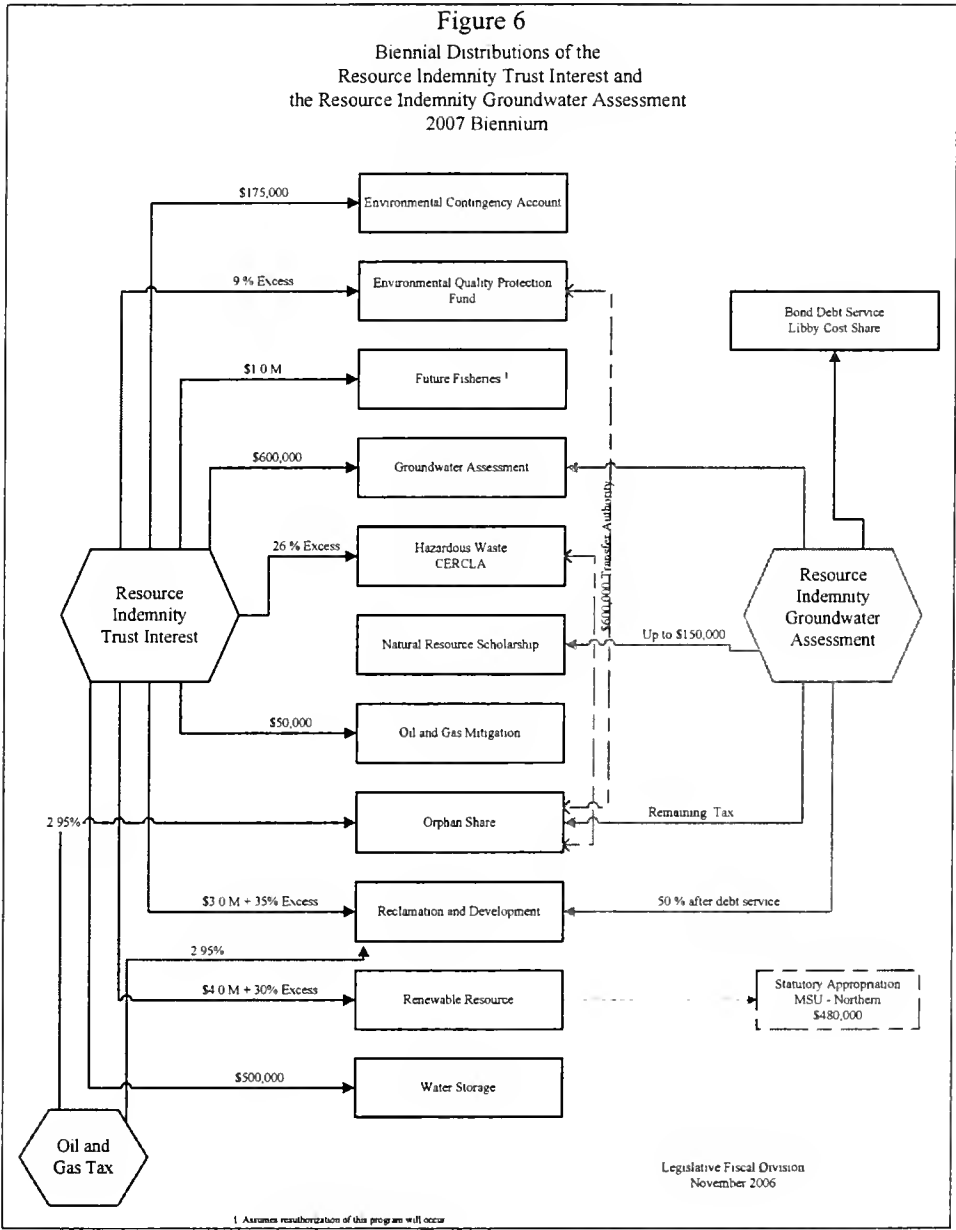
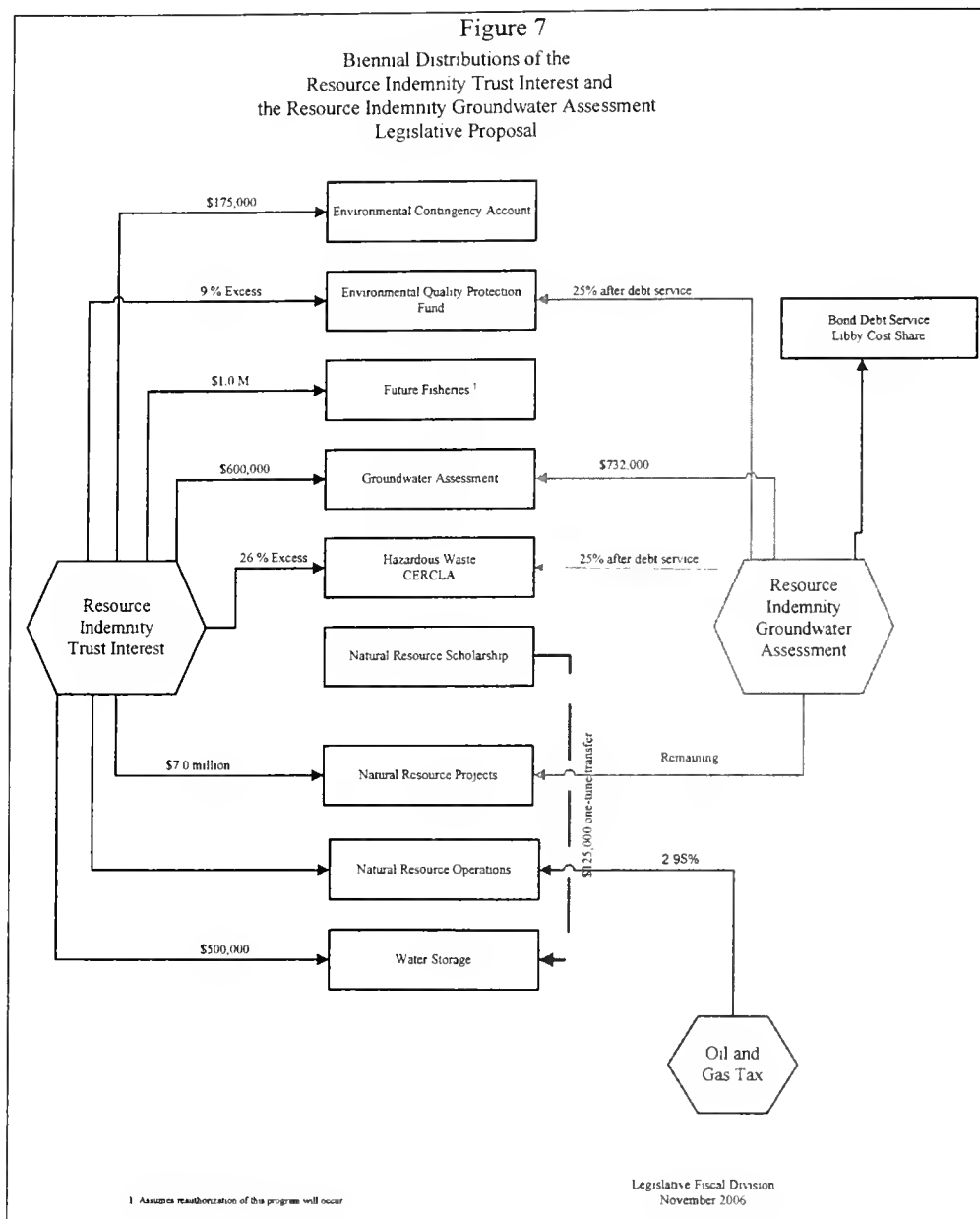


Figure 7
Biennial Distributions of the
Resource Indemnity Trust Interest and
the Resource Indemnity Groundwater Assessment
Legislative Proposal



The second table provides the detail of the appropriations from the RIT related funds. Both tables break out revenue estimates and the requests for funding from the executives request. Figure 8 represents current statutes, while Figure 9 represents the proposed legislative changes

Figure 8

Executive Request

Resource Indemnity Funding

Related Funds	02010	02022	02070	02162	02216	02272	02289	02458	02472
	Oil & Gas	Fisheries	Hazardous Waste	EQPF ¹	Water Storage	Renewable Resources	Ground Water	Reclamation & Development	Orphan Share
Beginning FY2007 Fund Balance	\$219,561	\$1,032,311	\$89,346	\$419,457	\$716,170	\$1,950,372	\$0	\$4,293,817	\$8,752,332
FY 2007 Revenues	47,000	500,000	287,300	1,363,265		2,571,500	666,000	5,857,740	3,221,040
FY 2007 Appropriations	(193,099)		(620,221)	(1,119,630)	(374,079)	(1,394,999)	(666,000)	(3,533,520)	(4,097,366)
Reserved for Capital Appropriations	0	(1,532,311)							
Reserved for LT notes	0				0	(114,423)		(635,000)	
Projected Fund Balance Beginning FY 2008	\$73,462	\$0	(\$243,575)	\$663,092	\$342,091	\$3,012,450	\$0	\$5,981,037	\$7,876,006
RIT Interest - Direct	50,000	1,000,000	389,740	134,910	500,000	4,929,700	600,000	3,524,650	
RIGWA							732,000	476,601	476,602
Other Taxes								8,621,719	6,621,719
Agency Generated Revenues	40,000		18,000	1,512,000	430,000				
Transfers									(2,400,000)
Projected Fund Balance Beginning FY 2008	\$163,462	\$1,000,000	\$164,165	\$2,310,002	\$1,272,091	\$7,942,150	\$1,332,000	\$18,604,007	\$12,574,327
House Bills 6 and 7 Grants (Executive Recommended)						5,900,000		5,196,500	
MSU-Northern (Statutory)						480,000			
UM-Bureau of Mines							1,332,000		
DNRC - Centralized Services						54,586		288,715	
DNRC - Conservation and Resource Devel. Division						599,564		2,449,102	
DNRC-Water Resources Division					625,000	24,130		251,612	
DNRC-Flathead Basin Commission						13,682		172,709	
DNRC - Board of Oil & Gas HB 2	194,382								
DNRC - Forestry Division						200,000			
DNRC - Trust Lands								1,000,000	
DEQ-Central Management			9,865					94,418	
DEQ-Planning, Prevention & Assistance			236,148						
DEQ-Enforcement								8,810	
DEQ-Remediation									4,135,026
DEQ-Permitting & Compliance			58,050	1,496,447				3,328,148	
FWP - HB 5 LRBP		1,000,000	792,953						
Judiciary-Water Court						1,775,445			
Library Commission-State Library Operations/NRIS								782,872	
HB 13 Pay Plan									
Appropriations	\$194,382	\$1,000,000	\$1,097,016	\$1,496,447	\$625,000	\$9,047,407	\$1,332,000	\$13,572,886	\$4,135,026
Ending Balance	(\$30,920)	\$0	(\$932,851)	\$813,555	\$647,091	(\$1,105,257)	\$0	\$5,031,121	\$8,439,301

1 - EQPF Revenues include cost recovery. The actual biennial recovery has varied between \$1.0 to \$2.3 million.

Figure 9
Proposed Legislation
Resource Indemnity Funding

Related Funds	02010	02022	02070	02162	02216	02289	02472	Operations	Projects
	Oil & Gas	Future Fisheries	Hazardous Waste	EQPF ¹	Water Storage	Ground Water	Orphan Share		
<u>Beginning FY 2007 Fund Balance</u>	\$219,561	\$1,032,311	\$89,346	\$419,457	\$716,170	\$0	\$8,752,332	\$0	\$0
FY 2007 Revenues	47,000	500,000	287,300	1,363,265		666,000	3,221,040	0	0
FY 2007 Appropriations	(193,099)		(620,221)	(1,119,630)	(374,079)	(666,000)	(4,097,366)	0	0
Reserved for Capital Appropriations	0	(1,532,311)						0	0
Reserved for L.T. notes	0				0			0	0
Projected Fund Balance Beginning FY 2008	\$73,462	\$0	(\$243,575)	\$663,092	\$342,091	\$0	\$7,876,006	\$4,496,743	\$4,496,743
RIT Interest - Direct	50,000	1,000,000	389,740	134,910	500,000	600,000		1,454,350	7,000,000
RIGWA			238,301	238,301		732,000			476,601
Other Taxes							6,621,719	8,621,719	
Agency Generated Revenues	40,000		18,000	1,512,000	430,000				
Transfers					125,000		(2,400,000)		
<u>Projected Fund Balance Beginning FY 2008</u>	<u>\$163,462</u>	<u>\$1,000,000</u>	<u>\$402,466</u>	<u>\$2,548,303</u>	<u>\$1,397,091</u>	<u>\$1,332,000</u>	<u>\$12,097,725</u>	<u>\$14,572,812</u>	<u>\$11,973,344</u>
House Bills 6 and 7 Grants (Executive Recommended)									11,096,500
—MSU Northern (Statutory)						1,332,000			
UM-Bureau of Mines								343,301	
DNRC - Centralized Services								3,048,666	
DNRC - Conservation and Resource Devel. Division					625,000			275,742	
DNRC-Water Resources Division								186,391	
DNRC-Flathead Basin Commission									
DNRC - Board of Oil & Gas HB 2	194,382								
DNRC - Forestry Division								200,000	
DNRC - Trust Lands								1,000,000	
DEQ-Central Management								94,418	
DEQ-Planning, Prevention & Assistance									
DEQ-Enforcement			9,865					8,810	
DEQ-Remediation			236,148						
DEQ-Permitting & Compliance			58,050	1,496,447			4,135,026	3,328,148	
FWP - HB 5 LRBP		1,000,000	792,953					1,775,445	
Judiciary-Water Court								782,872	
Library Commission-State Library Operations/NRIS									
HB 13 Pay Plan									
<u>Appropriations</u>	<u>194,382</u>	<u>1,000,000</u>	<u>1,097,016</u>	<u>1,496,447</u>	<u>625,000</u>	<u>1,332,000</u>	<u>4,135,026</u>	<u>11,043,793</u>	<u>11,096,500</u>
Ending Balance	<u>(\$30,920)</u>	<u>\$0</u>	<u>(\$694,550)</u>	<u>\$1,051,856</u>	<u>\$772,091</u>	<u>\$0</u>	<u>\$7,962,699</u>	<u>\$3,529,019</u>	<u>\$876,844</u>

1 - EQPF Revenues include cost recovery. The actual biennial recovery has varied between \$1.0 to \$2.3 million.

Negative Fund Balances

Figure 10 summarizes the funds that are projected to have a negative ending fund balance at the end of FY 2009 as per current law and the proposed legislation. This includes the oil and gas fund, the renewable resources fund, and the hazardous waste fund.

The oil and gas mitigation fund has the ability to utilize reclamation bonds to raise the necessary revenue to plug abandoned wells. The negative balance in cash could be made up through these bonds.

The renewable resource fund is over appropriated under current law. The legislature has two options; 1) reduce the appropriation authority from the fund; or 2) change the manner in which RIT revenues are distributed to this fund. The second option is addressed in the proposed legislation (LC 0147).

The hazardous waste fund appears to be over appropriated. However, the issue is the manner in which revenue is deposited to the fund. The hazardous waste fund by statute (75-10-621, MCA) is to receive proceeds and interest on bonds or notes issued for state match to the Superfund program. However, those revenues are not deposited and expended from this fund. The Superfund bond proceeds and subsequent expenses are held in a fund specific to the series released. The legislature has the option of requesting legislation to clarify the disposition of the interest and proceeds and the hazardous waste account could receive additional revenues and potentially eliminate the negative ending fund balance.

Management of state owned lands

The Trust Land Management Division of DNRC is responsible for managing ten trusts consisting of 5.1 million surface acres, 6.3 million mineral acres, and 6,000 miles of navigable rivers for the largest return possible for the beneficiaries through multiple land use policies under the direction of the Board of Land Commissioners (land board). The lands were provided to the state through the Enabling Act and the Morrill Act to support specific beneficiaries. The beneficiaries include common (public) schools, the university system, and specific state institutions. Revenue is generated through land management activities such as commercial leasing, grazing, recreational use, and minerals management. The cost to manage such activities is recovered from trust revenues. There are two issues with management of trust lands: 1) how the administration of trust lands should be financed; and 2) how the lands should be managed for the best possible return.

Financing of trust land activities

Trust land administration is currently funded through the retention of a portion of distributable (those revenues that by law are distributed directly to the beneficiary) and non-distributable (those revenues by law that are to be deposited to the permanent trust going to the trust) revenues.

Those revenues are deposited to one of seven funds that each have a specific purpose. The seven funds are summarized in Figure 11.

Legislative legal counsel has long held that it is inappropriate to finance the administration of trust lands in this manner. Article X of the constitution establishes the trusts as permanent and protected against loss or diversion, but is silent on the retention of

Figure 10
RIT Funds with negative balance at FYE 2009

	Current Law	Proposed Legislation
Oil & Gas	(\$30,920)	(\$30,920)
Hazardous Waste	(950,891)	(712,550)
Renewable Resource	(\$1,105,257)	\$0

Figure 11
Department of Natural Resources and Conservation
Trust Land Funding Resources

Fund and Description	Fund #	MCA
Trust Administration Account	02938	77-1-108
The amount appropriated from the account by the legislature is deposited from mineral royalties, proceeds from the sale of easements, fees, and five percent of the interest and income annually provided to the public school fund. Fund is to be		
Timber Sale Account	02280	77-1-613
The amount appropriated from the account by the legislature is deposited from timber sale revenue. Fund is to be utilized for timber sale preparation and documentation.		
Forest Improvement Fees	02449	77-5-204
Fee added to the sale of timber from state lands for the department to use for slash disposal, road maintenance, reforestation, and complying with legal requirements for timber harvesting.		
Resource Development	02450	77-1-604
Three percent of trust revenues deposited for the purpose of developing and improving state lands to increase revenues.		
Recreational Use Fees	02241	77-1-808
\$2.00 surcharge on conservation licenses to reimburse state lands for recreational usage. Ten percent of the revenue can be retained for damage compensation, weed control, protection of assets and recreational program management.		
Trust Land Banking	02324	77-2-362
Ten percent of proceeds from land sales can be retained to cover the transactional costs of buying and selling property		
Trust Land Commercial Leasing	02836	77-1-905
Ten percent of annual rents received from commercial leases to be utilized for contracting with realtors, property managers, attorneys, or leasing professionals for program administration.		

revenues for trust land administration. Statute provides the authority for the department to deposit revenues to an administration account that by constitutional declaration should be deposited to the permanent fund or distributed to the beneficiaries. In addition, lands granted to the state under the Morrill Act specifically prohibit the use of any revenues for administrative purposes.

The department voluntarily stopped retaining revenue to cover the administrative expenses of the Morrill trust in 2002 and utilized non-Morrill trust revenues to cover the administrative costs of the Morrill trust. The Environmental Quality Council (EQC) conducted an interim study on the affects of this diversion. The EQC is sponsoring legislation to correct the diversion issues. A recent legislative audit did address the amount of the diversion.

Legislative Audit

The legislative audit division conducted a routine fiscal audit of the department in the fall of 2006. The findings in this audit illustrate the issues associated with the financing of trust administration through the retention of revenues. The legislative audit findings have identified \$968,174 of inappropriate diversions of such revenues, not including interest. The executive is proposing to reimburse the trusts approximately \$560,000 through a supplemental appropriation for FY 2007.

There are three specific areas associated with the supplemental request:

1. Violation of the federal Morrill Act;
2. Utilization of other trust revenues to administer the Morrill Trust; and
3. Inappropriately withheld common school revenues to cover administrative costs.

Violation of the Federal Morrill Act

As stated earlier, section 3 of the Morrill Act directed the expenses of the trust to be paid out of the treasury of the state. Morrill trust revenues have been utilized to manage the Morrill trust for the benefit of Montana State University between FY 1967 and FY 2002. A total of \$507,643 was diverted by law from trust revenues during this period of time. The legislative audit determined that the Morrill trust or its beneficiary (Montana State University) should be repaid the amounts that were inappropriately withheld. The proposed supplemental includes plans to repay the diverted trust revenues. However, DNRC's fiduciary duty obligates that they also repay accrued interest.

Utilization of other trust revenue for Morrill Trust Administration

In FY 2003, DNRC voluntarily stopped taking assessments against the Morrill Act trust and the administrative costs have been absorbed by the other trusts, including other university trusts. Figure 12 summarizes the amount of Morrill Act costs that were paid by the other trusts between FY 2003 and FY 2005. There will be additional costs associated with FY 2006 and FY 2007. As with the Morrill trust, DNRC's fiduciary duty obligates that diverted trust revenues and accrued interest be returned to the trusts that absorbed the stopped Morrill assessments.

The supplemental appropriation request includes \$52,955 of these diversions. However, it does not include a repayment to common schools and it does not provide for interest to the beneficiaries. In addition, the executive branch has determined that the common schools have already been compensated by the general fund due to the offsetting relationship between trust revenues and the general fund in funding public schools. However, most of the diverted revenues would have otherwise been added to trust investments, ultimately increasing the revenues available for distribution to the beneficiaries. For the commons school, prior to 2001 and after repayment of the coal tax loan used to purchase the mineral royalty income stream, the revenues would have been added to trust investments.

Figure 12 Amounts Inappropriately Withheld From Trust Revenues* From Leg. Financial Audit	
Common School	\$191,945
University of Montana	5
MSU - Second Grant	12,874
Montana Tech	678
State Normal School	5,388
School for the Deaf & Blind	660
State Reform School	7,502
Capitol Building	<u>25,848</u>
Total	<u>\$244,900</u>
* Does not include related interest	

Inappropriately withheld common school revenues to cover administrative costs

State law limits administration to 1.125 percent of the book value of all trusts, except capitol buildings. The DNRC then uses internal policy and procedures to calculate the amount each trust contributes to administration and deposits that amount from revenue sources into the trust administration account. During FY 2005 and 2006, certain trusts were unable to meet their administrative obligations based on DNRC cost allocation policies and state law. The deficit to the trust administration account was made up by a diversion of \$215,631 revenues from the common school trust. The supplemental appropriation does not include repayment of this amount or any corresponding interest.

Need for Legislative Review

It is the decision of the legislature to determine how the trusts are to be made whole from the diversions of revenue. The issue for the legislature is to determine the amount needed to make the trusts whole and the process in which it should be completed.

How Much

Figure 13 Summary of Amounts Inappropriately Withheld From Trust Revenues with Interest			
	Morrill Diversions	Other Diversions	Allocation Issue
Common School		\$191,945	\$215,631
University of Montana		5	
Morrill Trust	\$507,643		
Montana State University - 2nd Grant		12,874	
Montana Tech		678	
State Normal School		5,388	
School for the Deaf & Blind		660	
State Reform		7,502	
Capital Building		25,848	
Diverted Revenue Total	\$507,643	\$244,900	\$215,631
Estimated Interest	351,887	1,400	1,000
Diverted Revenue & Interest	\$859,530	\$246,300	\$216,631

As stated, trust statute states that it is DNRC's fiduciary duty to return not only diverted but also accrued interest. The issue for the legislature is to determine an appropriate amount of interest. Diverted revenues most likely would have been deposited to the permanent trust fund. Figure 13 addresses total obligations through FY 2005 and minimal interest estimates. The estimates were calculated based upon corresponding STIP rates and simple compounding. The amount does not include the amount of diversions made in FY 2006 or FY 2007 for administration of the Morrill trust.

How Repayment Should Occur

A second issue for the legislature is to determine how the repayment of past diversions should occur. As stated, the executive is proposing a supplemental appropriation to DNRC to repay the trusts. However, transferring general fund to trust funds does not require appropriation authority as it is not leaving the treasury. If the legislature believes that these funds should be directly deposited to the trusts, legislation could accomplish this by simply directing transfers from the general fund to the appropriate trust. The proposed legislation could clearly outline why the transfer needs to occur.

If the legislature wished to provide one-time only spending authority to the beneficiaries for the amount diverted and any subsequent interest, an appropriation would be required. The legislature can choose to condition this money for a specific purpose or allow the beneficiaries to make that decision. This could be accomplished through HB 2 or a cat and dog bill.

LFC Action

This information was provided to the Legislative Finance Committee (LFC) at the November 28, 2006 meeting. The LFC has requested legislation to reimburse the trusts for the diverted amounts plus interest through a separate bill.

Summary

The legislature may wish to:

- Add funds to the supplemental appropriation to repay all trust diversions with interest
- Support the LFC legislation to utilize general fund transfers to the specific trusts for repayment of the past diversions and interest rather than a supplemental appropriation

Management of State Lands

The second issue relates to how the lands are managed in order to generate revenues for the beneficiaries. Land is classified as an asset and thus should be managed as such. The ability to do so is limited without an overall land management plan. This discussion applies to trust lands but can easily be translated to non-trust lands. The legislature has a number of ways to influence land management, specifically through Land Banking, land values, third party review, and overall policy issues.

Land Banking

Land banking was established by the 2003 Legislature to provide for the opportunity to sell isolated trust parcels and purchase parcels with greater revenue potential. The divesting of isolated parcels would also improve the department's ability to manage the land. Isolated parcels are nominated for sale, sold at public auction, and the proceeds used to purchase replacement parcels. The program sold the first parcel in the Flathead Valley in June of 2006 and is expected to perfect the first purchases by the end of 2006. The program is set to sunset on October 1, 2008, unless proposed legislation to extend the sunset date is passed and approved. Per statute, the legislature will not receive a formal report of the progress of this program until the program is completed.

In order to assure that the land banking program is meeting its objectives, the legislature may wish to require an annual summary of land banking activities. This could be done through a quarterly or semi-annual report to the Legislative Finance Committee.

Land Values

Land value is a key component of land purchases, sales, and exchanges. It is in the trust's best interest to have accurate and defensible land appraisals in order for the land board to meet their statutory obligations. Location, resource values, and access all add or subtract value from the land. During the course of land board transactions, the issue of appraising land with and without access has risen on multiple occasions. To simplify, there are three types of access. Public access, private access held by the adjacent land owner; and hypothetical access. The department does not have a policy to provide direction to appraisers on this matter. A parcel can be accessible by the adjacent land owner and inaccessible to the public. If the adjacent landowner is the willing buyer, access is available. Should a different party wish to purchase that same parcel, access is not available.

The legislature may wish to request legislation to address how land, in particular access, should be evaluated during sales, exchanges, and purchases.

Lack of third party review

Through statute, the legislature has provided all authority for land transactions to the land board. Each land board member has an assigned staff person to monitor the activities of the board. The land board staffers are educated and briefed prior to each board meeting. The issues are presented to the staffers to relay to the board members. The information provided to the board is a combination of what is passed to the board member from these meetings, written material, and any public testimony provided at the hearing. The legislative branch participates in the staff meeting but does not have a formal method to relay concerns to the land board.

In this format, the legislature does not have a role in the land transactions of the state. The one exception is the transfer of lands from a state entity to local government for the good of the public. Those transactions must be reviewed by legislative council, but again are not provided a review by fiscal staff. At times, legislators have requested reviews of specific land transactions in order to determine if any participation is warranted in specific land transactions. This has proved beneficial to some legislators, but not to the process as a whole.

The legislature may wish to consider their role in land transactions. As currently written, all authority has been transferred to the land board. The legislature may wish to consider:

- Requesting legislation for independent review of the larger land transactions
- Formalizing the legislature's relationship to the land board by appointing members to follow land transactions
- Requiring that a financial accounting of activities after each land board meeting be provided to the Legislative Finance Committee

Other policy questions

The issues surrounding land management are not simple. Activities during the interim highlighted other policy issues, which raised the following questions:

- Is the land board able to fulfill their role with current statutory direction regarding their powers and their ultimate duty to the state of Montana?
- Who decides what information is provided to the land board?
- Does the land board receive the appropriate information at the appropriate time to make decisions that are in the best interest of the state?
- As state lands are acquired or exchanged, are the costs associated with land management taken into consideration?
- Does the multiple land use policy of the state provide ample protection to the value of state trust lands and protect the states interest in non-trust lands?
- Are all facts regarding the sale, acquisition, or exchange of state lands part of the public process? For example which trusts are affected, other state land ownership, access revisions, conservation easements and other potential issues?
- Should cash payments be allowed to mitigate other issues, such as access, surrounding land transactions or is this in essence selling a piece of land?
- Is the appropriate agency managing state owned lands?
- When and how should land exchanges between agencies occur?
- What is the priority of the state regarding land management? Multiple uses, conservation, trust returns?
- Can the state accept federal dollars to purchase a specific parcel prior to approval from the land board?
- Is the process to acquire, sell or exchange land equally applied to all types of state land?
- Does the state have an overall land management plan, encompassing all land types for multiple use?
- Do land board policies regarding transactions apply to all agencies, if so how and when?
- The perception is that state land equals trust land. Is this acceptable or should policies apply to all stand lands regardless of which agency is responsible for management?
- Are the all options related to the sale and exchange of land reviewed prior to presenting the transaction to the land board?

The issues surrounding land management are not easily answered. At risk is the income stream to the beneficiaries, the value, aesthetics and health of the land and the use of the state’s navigable waters. The legislature has the option of requesting a joint resolution to find answers, and potentially develop policies that provide increased guidance to the challenge of balancing generating revenues, preserving land and meeting multiple land use options.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	38.00	3.00	0.00	41.00	3.00	0.00	41.00	41.00
Personal Services	1,870,032	496,011	0	2,366,043	503,523	0	2,373,555	4,739,598
Operating Expenses	552,382	180,400	0	732,782	61,658	0	614,040	1,346,822
Equipment	0	155,000	0	155,000	45,000	0	45,000	200,000
Capital Outlay	0	10,000	0	10,000	10,000	0	10,000	20,000
Debt Service	2,316	0	0	2,316	0	0	2,316	4,632
Total Costs	\$2,424,730	\$841,411	\$0	\$3,266,141	\$620,181	\$0	\$3,044,911	\$6,311,052
General Fund	1,955,739	469,700	0	2,425,439	338,876	0	2,294,615	4,720,054
State/Other Special	388,359	347,343	0	735,702	283,937	0	672,296	1,407,998
Federal Special	80,632	24,368	0	105,000	(2,632)	0	78,000	183,000
Total Funds	\$2,424,730	\$841,411	\$0	\$3,266,141	\$620,181	\$0	\$3,044,911	\$6,311,052

Program Description

The Centralized Services Division provides managerial and administrative support services to the department through: 1) the Director's Office, which includes the director, legal staff, and public information; and 2) support services, which manages all financial activities, coordinates information systems, produces publications and graphic materials, and performs general administrative support services. Support services include fiscal affairs, data processing, personnel, legal, reception, and mail. Responsibilities include trust revenue collection and distribution and maintenance of ownership records for trust and non-trust state-owned land.

Program Highlights

Centralized Services Division Major Program Highlights	
♦	The executive is requesting authority to establish a GIS enterprise system to integrate data across the department
♦	The executive request includes equipment for video conferencing to reduce travel costs and travel time
Major LFD Issues	
♦	Reductions in travel to offset the purchase of video conference equipment are not included in the budget

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table						
Centralized Services						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 1,955,739	80.7%	\$ 2,425,439	74.3%	\$ 2,294,615	75.4%
01100 General Fund	1,955,739	80.7%	2,425,439	74.3%	2,294,615	75.4%
02000 Total State Special Funds	388,359	16.0%	735,702	22.5%	672,296	22.1%
02039 Forestry-Fire Protection Taxes	51,000	2.1%	76,000	2.3%	25,000	0.8%
02052 Rangeland Improvement Loans	15,000	0.6%	15,000	0.5%	15,000	0.5%
02073 Forestry - Slash Disposal	5,000	0.2%	5,000	0.2%	5,000	0.2%
02145 Broadwater O & M	9,500	0.4%	12,500	0.4%	12,500	0.4%
02272 Renewable Resources Gmt/Loans	5,000	0.2%	26,336	0.8%	28,250	0.9%
02280 Forest Resources-Timber Sales	78,000	3.2%	78,000	2.4%	78,000	2.6%
02340 Coal Sev. Tax Shared Ssr	5,000	0.2%	10,000	0.3%	10,000	0.3%
02430 Water Right Appropriation	65,591	2.7%	65,000	2.0%	65,000	2.1%
02431 Water Adjudication	-	-	28,351	0.9%	28,393	0.9%
02432 Oil & Gas Era	63,412	2.6%	63,500	1.9%	63,000	2.1%
02449 Forest Resources-Forest Improv	32,000	1.3%	40,000	1.2%	38,000	1.2%
02450 State Lands Res Dev	26,444	1.1%	26,444	0.8%	26,444	0.9%
02458 Reclamation & Development	5,000	0.2%	151,808	4.6%	136,907	4.5%
02825 Water Well Contractors	5,000	0.2%	5,000	0.2%	5,000	0.2%
02938 Tlmd - Administration	22,412	0.9%	132,763	4.1%	135,802	4.5%
03000 Total Federal Special Funds	80,632	3.3%	105,000	3.2%	78,000	2.6%
03255 Csd Federal Indirect	80,632	3.3%	105,000	3.2%	78,000	2.6%
Grand Total	\$ 2,424,730	100.0%	\$ 3,266,141	100.0%	\$ 3,044,911	100.0%

The Centralized Services Division is funded primarily with general fund, a variety of resource based accounts such as revenue from timber sales and taxes on oil and gas wells, and federal indirect grant reimbursements. To obtain funding the department charges overhead rates to other divisions to recover costs. The rate varies depending upon the type and amount of managerial, payroll, contract, and accounts payable services provided to the divisions.

Present Law Adjustments

The “Present Law Adjustments” table shows the primary changes to the adjusted base budget proposed by the Governor. “Statewide Present Law” adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
Fiscal 2008					Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				385,310					392,987
Vacancy Savings				(90,215)					(90,521)
Inflation/Deflation				3,947					5,091
Fixed Costs				91,447					(12,478)
Total Statewide Present Law Adjustments				\$390,489					\$295,079
DP 2101 - GIS Enterprise Project IT									
2.00	0	195,164	0	195,164	2.00	0	180,263	0	180,263
DP 2102 - CSD Operating Adjustment									
1.00	0	104,758	0	104,758	1.00	0	107,839	0	107,839
DP 2103 - CSD Equipment IT OTO									
0.00	30,000	11,000	5,000	46,000	0.00	0	9,000	3,000	12,000
DP 2104 - GIS Enterprise Equipment IT OTO									
0.00	105,000	0	0	105,000	0.00	25,000	0	0	25,000
Total Other Present Law Adjustments									
3.00	\$135,000	\$310,922	\$5,000	\$450,922	3.00	\$25,000	\$297,102	\$3,000	\$325,102
Grand Total All Present Law Adjustments				\$841,411					\$620,181

**LFD
COMMENT**

The components driving the personal service adjustment are about \$34,200 for vacancies in the base year and \$50,400 in non-legislative pay adjustments. The remainder is to annualize the previous pay plan, longevity adjustments, and increases to employer paid health insurance premiums. The non-legislative pay increases are attributed to market adjustments provided under pay plan 20.

DP 2101 - GIS Enterprise Project IT – The executive recommends 2.00 FTE and state special revenue authority to implement an enterprise GIS to provide an organization-wide approach that facilitates the integration, implementation, operation, and management of tabular and spatial information. This would assist in streamlining work processes, allowing integration of data and systems, improving accessibility and data management, reducing duplication of efforts and costs (hardware, software and personnel), providing rapid automated updating, and improving access to data for decision-making.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: Currently the department creates and maintains most of its spatial data at a local, bureau or division level with little to no emphasis on an agency-wide (enterprise) approach. This has led to overlap and incompatibility of datasets along with other inefficiencies. The implementation of an enterprise GIS will provide an organization-wide approach that facilitates the integration, implementation, operation, and management of tabular and spatial information.

Goal: Implement an enterprise GIS system for DNRC to provide an organization-wide approach that facilitates the integration, implementation, operation and management of tabular and spatial information.

**LFD
COMMENT**

The LFD opted to replace the agency provided write up with an excerpt from the department's information technology (IT) plan filed with the Information Technology and Services Division (ITSD) of the Department of Administration (DofA).

Performance Criteria: DNRC will work with ITSD to develop the GIS infrastructure that meets the needs of the agency and other agencies. A project plan will be developed with specific goals and tasks and progress measured against that plan. Technical requirements will be developed using agency GIS specialists working with an agency GIS coordinator.

**LFD
COMMENT**

The department's IT plan documents objectives and measures for this proposal. They are:

Objective: Hire a GIS coordinator to facilitate development of an enterprise DRNC GIS system.

Measures: Hire a GIS coordinator by the June 2006.

Objective: Design an infrastructure for GIS that meets the needs of the Department in FY2007 and through FY2011. Coordinate development of interfaces with other GIS systems in the state.

Measures: Design the first stage of the GIS system by June 2006. Build or contract for the servers, databases and software needed for the system by end of the second quarter 2007. Develop a robust, secure, recoverable system for DNRC by end of FY2008. Interface the DNRC GIS system into the state GIS system for information and data sharing.

Objective: Work with NRIS and/or ITSD for a storage system for historical aerial photos (1930s-1950s and 1979) used by water rights, other DNRC divisions, and other agencies.

Measures: Currently working on historical aerial photo archive and storage.

Goal: system in place by July 2007

LFD COMMENT	<p><u>Objective:</u> Provide for Citrix access to GIS software for end-users who have slow connections or are only occasional users of GIS systems.</p> <p><u>Measures:</u> Establish ESRI software on central Citrix server by fourth quarter 2006.</p> <p><u>Objective:</u> Establish division licensing model or tie into state licensing to reduce cost and maintenance of ESRI software while providing appropriate access for DNRC staff.</p> <p><u>Measures:</u> Negotiate license agreement with ESRI that is cost effective for DNRC. July 2006.</p> <p><u>Objective:</u> Create GIS natural resource layers and use them to identify priority areas for stewardship, forest and fire management plan development.</p> <p><u>Measures:</u> Develop a robust, secure, recoverable system for use by end of FY2008.</p>
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Milestones: Work has already begun on planning the GIS Enterprise infrastructure. A team of IT staff and GIS staff from ITSD and DNRC are working on a plan for hardware and software to support GIS within the Water Resources Division of DNRC. Expanding this system to incorporate other divisions of DNRC would begin in the first quarter of FY 2008. A detailed implementation plan will be developed in conjunction with funding of this DP and will stage expansion of the infrastructure to include all divisions of DNRC. Key to this development is funding for a GIS coordinator in the IT Bureau and a GIS Analyst in the Forest Management Bureau of TLMD.

LFD COMMENT	The department's IT plan provides for milestones within the objectives provided above.
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FTE: Work on this project will be done by the GIS Coordinator and GIS specialists. (A modified position was created for the GIS coordinator position in FY 2007 to complete critical assessment and planning measures.) Coordination will be provided by a project manager in ITSD and the IT Bureau Chief in DNRC. They will coordinate with ITSD staff on deployment of the hardware and software in the ITSD data center.

Funding: Funding is comprised of \$195,164 from state special revenue in FY 2008 and \$180,263 in FY 2009.

Obstacles: Cooperation within the agency in accomplishing the goal of an Enterprise GIS system is critical. The project will need widespread agency support, proper training for staff supporting the systems and development of technology partnerships to succeed. This project has already received endorsement by GIS staff at all levels of DNRC and from GIS staff in other agencies. The project will require strong leadership, cooperation and adequate funding for hardware, software and training to succeed.

Risk: For many years DNRC relied on a staff of cartographers to draw maps showing boundaries of state lands, water resources, forests, natural resources, conservation efforts and other visual representations of the work of DNRC staff. Those cartographers are being replaced by GIS specialists who convert the information in databases to visual representations on computers using GIS. This work is happening now on individual desktops and in numerous data models. Not developing an enterprise GIS infrastructure could lead to data loss, incompatibility of data, data duplication, difficulty in finding GIS data and inability to meet the business requirements of the department.

**LFD
ISSUE**

Request is a New Proposal

This proposal should be classified as a new proposal rather than a present law adjustment as it is a new function within state government. In addition, if approved this proposal would have on-going operating costs past the biennium.

Funding

This proposal is funded with state special revenue authority from two sources. The trust land administration account provides approximately 35 percent of the funding. The responsibilities of the trust land management program are such that the GIS system could assist with workloads.

The remainder of the package is funded with reclamation and development dollars, an RIT related fund. The proposal was not evaluated through HJR 36, the RIT study. The following is provided to evaluate this proposal on the same level as other programs utilizing RIT funds. (see agency overview for discussion of RIT)

- Is the function consistent with the use of RIT interest or RIGWA taxes?
- Statute directs RIT interest to be used to improve the total environment or rectify damage to the environment. This proposal does not directly meet those criteria. However, the GIS system could be seen as a tool used to improve the total environment.
- Are measurable goals and objectives in place?
- The development of the system is documented in the department's IT plan, including measurable goals and objectives.
- Is there a monitoring plan?
- Included in the department's IT plan.
- What other funding is available?
- There is not a specific state special revenue fund for this type of work. If all departments are to use this system, there may be other funds that could contribute to the proposal, or utilize general fund.

The issue for the legislature is to determine if RIT funding is appropriate; or, if the proposal benefits the state as a whole, whether general fund would be a better source. If the legislature approves this package, they may wish to:

- Replace RIT funds with general fund
- Reduce RIT funds and include other state special sources such as water right appropriation fees

DP 2102 - CSD Operating Adjustment - The executive requests 1.00 FTE and state special revenue authority for increased operating costs. The FTE would be a network administrator to assist end-users, work on security and provide software training to employees. Operating adjustments are requested for replacement computers, IT training, rent and contracted services.

**LFD
COMMENT**

The department would normally replace computers in the base year. However, the department utilized some of this authority to cover increased utility costs and needs the authority restored to maintain the replacement cycle.

DP 2103 - CSD Equipment IT OTO - The executive requests one-time-only authority to replace aging office equipment and utilize \$30,000 general fund authority to purchase videoconferencing equipment in Helena, Missoula, and Kalispell to reduce staff travel and travel expenses.

LFD
ISSUE

Request is for a New proposal/No Offsetting Reduction in Costs

The request for videoconference equipment is being made to reduce state travel and related expense. This should be categorized as a new proposal.

The executive budget does not contain a corresponding \$30,000 general fund reduction in staff travel. If the legislature approves the request, they may wish to:

- Approve the decision package and require the agency to report travel savings incurred from the use of videoconferencing
- Approve the decision package and reduce the department’s travel budget by \$30,000 in general fund authority

DP 2104 - GIS Enterprise Equipment IT OTO - The executive recommends one-time-only general fund authority to fund the infrastructure for a GIS enterprise project. The infrastructure would include servers, server software, geodata storage, and connection of those systems to a proposed federated GIS system for the State of Montana. The proposal calls for a tiered approach with an initial hardware and software purchase in FY 2008 and expansion of that system in FY2009 to meet anticipated growth in the system during development.

LFD
COMMENT

If the legislature does not approve DP 2101-GIS Enterprise Project IT, Then this package should not be approved either. Unlike DP 2101, this proposal is funded with general fund. See the discussion under DP 2101 regarding funding issues.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	20.50	0.00	1.00	21.50	0.00	1.00	21.50	21.50
Personal Services	917,514	260,923	37,669	1,216,106	278,099	37,696	1,233,309	2,449,415
Operating Expenses	376,782	447,307	272,500	1,096,589	448,933	272,500	1,098,215	2,194,804
Equipment	48,345	5,000	0	53,345	5,000	0	53,345	106,690
Grants	0	0	5,000	5,000	0	5,000	5,000	10,000
Total Costs	\$1,342,641	\$713,230	\$315,169	\$2,371,040	\$732,032	\$315,196	\$2,389,869	\$4,760,909
State/Other Special	1,256,978	798,893	315,169	2,371,040	817,695	315,196	2,389,869	4,760,909
Federal Special	85,663	(85,663)	0	0	(85,663)	0	0	0
Total Funds	\$1,342,641	\$713,230	\$315,169	\$2,371,040	\$732,032	\$315,196	\$2,389,869	\$4,760,909

Program Description

The Oil and Gas Conservation Division administers the Montana oil and gas conservation laws to promote conservation and prevent waste in the recovery of these resources through regulation of exploration and production of oil and gas. The division: 1) issues drilling permits; 2) classifies wells; 3) establishes well spacing units and pooling orders; 4) inspects drilling, production, and seismic operations; 5) investigates complaints; 6) does engineering studies; 7) determines incremental production for enhanced recovery and horizontal wells to implement the tax incentive program for those projects; 8) operates the underground injection control program; 9) plugs orphan wells; and 10) collects and maintains complete well data and production information.

Program Highlights

Oil and Gas Conservation Division Major Program Highlights	
♦	The program is seeking authority for coal bed methane activity that was delayed due to litigation
Major LFD Issues	
♦	One-time only appropriations from the 2005 session are being requested as present law base adjustments

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Oil & Gas Conservation Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 1,256,978	93.6%	\$ 2,371,040	100.0%	\$ 2,389,869	100.0%
02432 Oil & Gas Era	1,256,978	93.6%	2,371,040	100.0%	2,389,869	100.0%
03000 Total Federal Special Funds	85,663	6.4%	-	-	-	-
03356 Oil & Gas Federal	85,663	6.4%	-	-	-	-
Grand Total	\$ 1,342,641	100.0%	\$ 2,371,040	100.0%	\$ 2,389,869	100.0%

The division is funded through taxes levied on oil and gas wells and the class II annual operating fee. By statute (15-36-324, MCA) a percentage of oil production taxes and natural gas taxes are deposited to the account for the board's use. The board is authorized by statute (82-11-131, MCA) to set privilege and license taxes up to 3/10 of 1 percent of the market value of each barrel of crude petroleum produced and of each 10,000 cubic feet of natural gas produced to comply with 15-36-324, MCA. Section 82-11-137, MCA provides for a maximum \$300 annual operating fee for each class II injection well. The board set the fee at \$300. The division also receives federal funding from the Environmental Protection Agency (EPA) for the underground injection control program.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2008						Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				262,470						264,653
Vacancy Savings				(47,197)						(47,287)
Inflation/Deflation				2,797						3,159
Fixed Costs				10,761						11,749
Total Statewide Present Law Adjustments				\$228,831						\$232,274
DP 2201 - O&G Regulatory Operating Adjustment										
0.00	0	413,241	0	413,241		0.00	0	422,249	0	422,249
DP 2202 - Underground Injection Control (UIC) Operating Adj.										
0.00	0	71,158	0	71,158		0.00	0	77,509	0	77,509
Total Other Present Law Adjustments										
0.00	\$0	\$484,399	\$0	\$484,399		0.00	\$0	\$499,758	\$0	\$499,758
Grand Total All Present Law Adjustments				\$713,230						\$732,032

DP 2201 - O&G Regulatory Operating Adjustment - The executive requests a base adjustment of state special revenue authority. Of the biennial request, \$600,000 is to restore the base budget authority for coal bed methane contracted studies not performed because of litigation. The remainder is attributable to board per diem, increases to contracted legal services, exempt staff pay, janitorial services, and rent.

DP 2202 - Underground Injection Control (UIC) Operating Adj. - The executive requests state special revenue of authority to restore board per diem, annualize contract budgets for the board attorney, agency legal services, janitorial and database services, fund exempt staff pay increases and increased travel, as well as cover other increased operating expenses.

New Proposals

New Proposals										
Fiscal 2008						Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2203 - O&G Public Assess Data System IT										
22	1.00	0	212,669	0	212,669	1.00	0	212,696	0	212,696
DP 2204 - O&G Education & Outreach BIEN										
22	0.00	0	62,500	0	62,500	0.00	0	62,500	0	62,500
DP 2205 - O&G North American Prospect Exposition (NAPE) BIEN										
22	0.00	0	7,500	0	7,500	0.00	0	7,500	0	7,500
DP 2208 - Temporary Relocation Costs RST/OTO/BIEN										
22	0.00	0	32,500	0	32,500	0.00	0	32,500	0	32,500
Total	1.00	\$0	\$315,169	\$0	\$315,169	1.00	\$0	\$315,196	\$0	\$315,196

DP 2203 - O&G Public Assess Data System IT - The executive recommends 1.0 FTE and special revenue authority to continue the historical records acquisition project started in the 2005 biennium. The project involves the scanning and microfilming of historical records and making them available for Internet or other public accessibility. The FTE would scan and index historical documents housed in the Billings office. In addition, operating funding would be used to contract with the Secretary of State's Office to microfilm historical records housed in the Helena office.

**LFD
COMMENT**

The 2005 legislature approved this package as one-time-only. If approved, this proposal would convert modified FTE to permanent. The department is unable to estimate how long this project is going to take. If the legislature is interested in monitoring progress, the package could be conditioned as one-time-only and require a progress report during the 2009 legislative session.

DP 2204 - O&G Education & Outreach BIEN - The executive request a biennial appropriation of state special revenue toll allow the division to contract with Montana Tech to provide summer petroleum workshops for teachers and to provide matching scholarship funds for an essay contest arising out of those workshops.

**LFD
COMMENT**

The first workshop, with 19 participants, was held in June 2006. The first scholarship awards to essay contest winners will be in the spring of 2007. This is an ongoing workshop and essay contest.

DP 2205 - O&G North American Prospect Exposition (NAPE) BIEN - The executive requests a biennial appropriation to provide funding for staff and board members to sponsor an information booth at the annual North American Prospect Expedition (NAPE) in Houston. Funding will provide travel, meals, lodging, registration, booth rental, and conference room costs.

**LFD
COMMENT**

The 2005 legislature approved this package as one-time-only. If approved, this proposal would add base budget authority for this purpose.

DP 2208 - Temporary Relocation Costs RST/OTO/BIEN - The executive recommends this one-time-only biennial budget request for state special revenue of \$65,000 for temporary office space for the Billings staff and relocation costs.

**LFD
COMMENT**

A proposal to remodel the Billings Oil and Gas office will be presented to the Long Range Planning Subcommittee during the 2007 legislative session for the 2009 biennium budget. Leased space will be necessary if the remodel/expansion of the existing space is approved.

Language

"The department is authorized to decrease state special revenue money in the underground injection control program and increase federal special money by a like amount when the amount of federal EPA funds available for the program becomes known. Any federal special revenue is to be spent before state special revenue."

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	24.50	0.00	1.00	25.50	0.00	1.00	25.50	25.50
Personal Services	1,264,390	225,843	51,462	1,541,695	229,125	51,496	1,545,011	3,086,706
Operating Expenses	1,331,953	284,357	246,738	1,863,048	293,456	251,744	1,877,153	3,740,201
Equipment	54,996	0	0	54,996	0	0	54,996	109,992
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	0	200,000	0	200,000	200,000	0	200,000	400,000
Grants	1,199,806	125,000	150,000	1,474,806	125,000	150,000	1,474,806	2,949,612
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$3,851,145	\$835,200	\$448,200	\$5,134,545	\$847,581	\$453,240	\$5,151,966	\$10,286,511
General Fund	1,299,129	137,594	0	1,436,723	139,631	0	1,438,760	2,875,483
State/Other Special	2,305,218	678,456	448,200	3,431,874	681,140	453,240	3,439,598	6,871,472
Federal Special	246,798	19,150	0	265,948	26,810	0	273,608	539,556
Total Funds	\$3,851,145	\$835,200	\$448,200	\$5,134,545	\$847,581	\$453,240	\$5,151,966	\$10,286,511

Program Description

The Conservation and Resource Development Division provides technical, administrative, financial and legal assistance to Montana's 58 conservation districts by administering the Conservation District Act, Montana Rangeland Resources Act, and the Natural Streambed and Land Preservation Act. The division also manages several loan and grant programs for local communities, local governments, state agencies, and private citizens. The programs include the state revolving fund, which currently includes \$150 million loaned to communities for water and waste water systems, coal severance tax loans to governmental entities totaling \$45 million, and private loans for \$16.5 million. Grant programs administered by the division include the Reclamation Development, Renewable Resource, and Conservation District grant programs.

Program Highlights

Conservation and Resource Development Division
Major Program Highlights
<ul style="list-style-type: none">♦ The executive is seeking to increase support of the Yellowstone River District Council and the Missouri River District Council♦ Authority for the conservation districts to administer the coal bed methane damage program is being requested
Major LFD Issues
<ul style="list-style-type: none">♦ RIT related funds are requested for river resource activities♦ Reimbursements to conservation districts to administer the coal bed methane damage program are not limited in statute

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

		Program Funding Table Conservation/Resource De					
Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000	Total General Fund	\$ 1,299,129	33.7%	\$ 1,436,723	28.0%	\$ 1,438,760	27.9%
	01100 General Fund	1,299,129	33.7%	1,436,723	28.0%	1,438,760	27.9%
02000	Total State Special Funds	2,305,218	59.9%	3,431,874	66.8%	3,439,598	66.8%
	02015 Tsep Regional Water System	535,304	13.9%	649,304	12.6%	649,304	12.6%
	02052 Rangeland Improvement Loans	8,109	0.2%	8,109	0.2%	8,109	0.2%
	02270 Treasure State Endowment	27,999	0.7%	28,000	0.5%	28,000	0.5%
	02272 Renewable Resources Grnt/Loans	294,282	7.6%	299,282	5.8%	300,282	5.8%
	02316 Go94B/Ban 93D Admin	18,858	0.5%	19,708	0.4%	20,048	0.4%
	02340 Coal Sev. Tax Shared Ssr	765,779	19.9%	890,779	17.3%	890,779	17.3%
	02433 Grazing District Fees	15,333	0.4%	15,333	0.3%	15,333	0.3%
	02458 Reclamation & Development	639,554	16.6%	1,221,359	23.8%	1,227,743	23.8%
	02490 Drinking Water Investment	-	-	200,000	3.9%	200,000	3.9%
	02694 Coal Bed Methane Protection	-	-	100,000	1.9%	100,000	1.9%
03000	Total Federal Special Funds	246,798	6.4%	265,948	5.2%	273,608	5.3%
	03014 Dw Srf Ffy05 Grant	100,003	2.6%	120,003	2.3%	122,003	2.4%
	03178 Res Dev & Cons - Fed	35,651	0.9%	35,651	0.7%	35,651	0.7%
	03440 Dw Srf 03	15,000	0.4%	-	-	-	-
	03442 Dw Srf 03	-	-	5,000	0.1%	7,000	0.1%
	03457 Wpc Srf Fy03 Grant	96,144	2.5%	105,294	2.1%	108,954	2.1%
Grand	Total	<u>\$ 3,851,145</u>	<u>100.0%</u>	<u>\$ 5,134,545</u>	<u>100.0%</u>	<u>\$ 5,151,966</u>	<u>100.0%</u>

This program is primarily funded with general fund, resource indemnity trust (RIT) accounts, and coal severance taxes.

RIT funding is used to administer the Reclamation and Development Grants Program (RDGP) and the Renewable Resources Grant and Loan Program (RRGLP). The RDGP is a state-funded grant program that assists any department, agency, and division of state government, tribal government, board, or commission to indemnify the people of the state for the effects of mineral development on public resources. The RRGLP funds a variety of natural resource projects including groundwater studies, irrigation projects, water and soil conservation, and public wastewater projects primarily through grants administered by the department. Coal severance tax is used to provide grants to conservation districts for natural resource related projects such as streambed stabilization, soil conservation, educational activities, and demonstrations of new technologies.

The Natural Resource Development Bureau utilizes nearly half of the division general fund to administer grant and loan programs, provide assistance to conservation districts for the administration of water reservations, and assist landowners to develop new irrigation. The Conservation District Bureau utilizes just over half of the available general fund to assist Montana conservation and grazing districts. The remaining program funding includes miscellaneous state special revenue, federal drinking water and water pollution control funds, and miscellaneous federal sources used to supplement division activities.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2008-----						-----Fiscal 2009-----				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					287,937					291,356
Vacancy Savings					(62,094)					(62,231)
Inflation/Deflation					4,867					5,710
Fixed Costs					10,490					10,746
Total Statewide Present Law Adjustments					\$241,200	\$245,581				
DP 2301 - CARDD Operating Adjustment										
	0.00	23,000	82,000	10,000	115,000	0.00	23,000	86,000	14,000	123,000
DP 2302 - Drinking Water Loan Program Assistance										
	0.00	0	200,000	0	200,000	0.00	0	200,000	0	200,000
DP 2306 - Regional Water Systems										
	0.00	0	114,000	0	114,000	0.00	0	114,000	0	114,000
DP 2307 - Yellowstone River Council										
	0.00	0	40,000	0	40,000	0.00	0	40,000	0	40,000
DP 2312 - Watershed Grants										
	0.00	0	125,000	0	125,000	0.00	0	125,000	0	125,000
Total Other Present Law Adjustments										
	0.00	\$23,000	\$561,000	\$10,000	\$594,000	0.00	\$23,000	\$565,000	\$14,000	\$602,000
Grand Total All Present Law Adjustments					\$835,200	\$847,581				

LFD COMMENT

Personal Services Adjustments – The components driving the personal service adjustment includes \$370,000 for vacancies in the base year and \$27,840 for non-legislative pay adjustments. The remainder is to annualize the previous pay plan, longevity adjustments, and increases to employer paid health insurance premiums. The non legislative pay increases are attributed to market adjustments provided under pay plan 20.

DP 2301 - CARDD Operating Adjustment - The executive recommends \$115,000 in FY 2008 and \$123,000 in FY 2009 of general, state special, and federal revenue authority to restore the base budget due to open positions, the continuation of the St Mary's Project and work group, increased rent, contracted services, and operating costs. The general fund would be used for operating expenses in the Conservation District Bureau.

LFD ISSUE

This adjustment includes \$29,000 in travel related expenses. If the department implements video conferencing, this entire adjustment may not be warranted. For further discussion, see DP 2103 in the Central Services Division.

DP 2302 - Drinking Water Loan Program Assistance - The executive requests \$200,000 of state special revenue each year of the 2009 biennium to match federal authority for hardship communities in the Safe Drinking Water program. This would allow the state to provide assistance to disadvantaged communities who borrow from the program. The funding is from the interest derived from the investments of the revolving fund.

DP 2306 - Regional Water Systems - The executive requests an increase in base authority for the continued development of Dry Prairie, Dry Red Water, Central Montana, and the North Central Regional Water System. These systems will facilitate the construction of regional water systems for small communities. This would provide resources to maintain local support, work toward securing federal assistance, and negotiate needed agreements to work on engineering and environmental planning for the various systems.

DP 2307 - Yellowstone River Council - Thirteen conservation districts have joined together to coordinate comprehensive resource management issues on the Yellowstone River. The executive requests an increase in state special revenue of \$40,000 per year to pay for Yellowstone River Council expenses.

**LFD
ISSUE****Measurable Criteria**

According to the council's website, their goal is to ensure a healthy Yellowstone River and riparian system capable of sustaining the needs of Montana citizens and the communities they serve. The council believes they can obtain their goal by encouraging communication and cooperation through collaboration, education, incentives and voluntary action. To accomplish their goal the council has determined that there is a need for:

- o Scientific information on which to base management decisions
- o Broad-based local, regional and national input
- o Technical and financial assistance to address sustainable use issues on the Yellowstone River

Because of this requested increase, the issues for the legislature are:

- o Is there sufficient evidence that the council is making progress towards their goal?
- o Is the use of general fund appropriate? Does the overall state benefit from this proposal?

Performance Criteria: The council does not publish a set of performance criteria that would be utilized in measuring their progress towards the overall goal of sustaining a healthy Yellowstone River. The council does publish an annual report where individual research activities have demonstrated goals, some measurable objectives, and timelines.

Given these issues the legislature may wish to track progress as it occurs. To do this the legislature could request performance management reporting after critical milestones as language in HB 2 or in a companion bill.

Funding: The executive is requesting general fund for this increase. Because the activities are targeted to improve the total environment, RIT could be utilized for this program.

To address the issues the legislature, may wish to:

- o Approve the decision package and require measurable performance criteria written into the contract for the Yellowstone River Council operations
- o Approve the decision package and replace the general fund with other state special authority such as renewable resource funding

DP 2312 - Watershed Grants - The executive requests \$125,000 each year of the biennium for the watershed planning and assistance grant (WPAG) program. The program assists conservation districts and affiliated local watershed groups with expenses associated with watershed planning. Grants can be used for the collection of baseline resource information, facilitators, development of a watershed management plan, training, educational efforts, and incidental costs associated with watershed planning.

LFD
ISSUE

Coal Severance Shared Revenue Funding

This request is funded by the coal severance tax shared state special revenue fund.

Figure 14					
Coal Tax Shared Revenue Account					
2007 Biennium					
Component	FY 2008	FY 2009	Biennium	Percentage	
Revenues*					
5.46 percent of Coal Tax Revenues	\$2,061,000	\$1,975,000	\$4,036,000		
Executive Budget					
Montana State Library - Statewide Library Resources	571,511	571,511	1,143,022	27.26%	
DNRC - Conservation Districts/Centralized Services	900,779	900,779	1,801,558	42.96%	
Agriculture - Growth Through Ag	625,609	623,591	1,249,200	29.79%	
Total	\$2,097,899	\$2,095,881	\$4,193,780	100.00%	
Biennial Difference - Transferred to the General Fund			-\$157,780		
*Revenues are as estimated by the Revenue and Transportation Committee					
Expenditures are as requested in the executive budget					
December 5, 2006					

The department receives coal tax revenues through a shared state special revenue fund (15-35-108, MCA). This account receives 5.46 percent of all coal tax earnings. According to statute the funds in this account are to be allocated by the legislature for basic library services for the residents of all counties through library federations and payment of costs of participating in regional and national networking and for conservation districts and the Montana Growth Through Agriculture Act. The appropriations must be coordinated to ensure actual revenues are not over-appropriated. Because any unspent or non-appropriated balance remaining is deposited into the general fund, appropriations have a direct bearing on the general fund.

As shown, using the estimates of the Revenue and Transportation Committee, the executive would over-appropriate revenues by \$157,780 over the 2009 biennium. The figure also illustrates that the three state agencies receive varying percentages of the total appropriation. The legislature may wish to consider:

- Appropriating the estimated revenues to the department, the Library Commission, and the Department of Agriculture
- Allocating the reductions to the appropriations by percentage of the appropriation each agency receives

New Proposals

New Proposals										
Program	FTE	Fiscal 2008				FTE	Fiscal 2009			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 2303 - Irrigation Assistance										
23	0.00	0	150,000	0	150,000	0.00	0	150,000	0	150,000
DP 2308 - Missouri River Council										
23	0.00	0	128,200	0	128,200	0.00	0	133,240	0	133,240
DP 2311 - Conservation District Watershed Position										
23	1.00	0	70,000	0	70,000	1.00	0	70,000	0	70,000
DP 2314 - Conservation Dist Operating-Coal Bed Methane RST										
23	0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,000
Total	1.00	\$0	\$448,200	\$0	\$448,200	1.00	\$0	\$453,240	\$0	\$453,240

DP 2303 - Irrigation Assistance - The executive requests \$150,000 in FY 2008 and FY 2009 of state special revenue for the Irrigation Assistance Program to provide grants to develop new irrigation or increase the value of existing agricultural land through improved irrigation. The FY 2007 biennium appropriation for this purpose was one-time-only.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: This program is a result of new irrigation development in Montana and will provide an opportunity for Montana farmers and ranchers to invest in high value crops and irrigate lands, which will sustain agricultural operators and surrounding communities.

Goal: The goal of the program is to provide resources to produce higher value crops, and potentially bring processing facilities to Montana. A goal of 100,000 acres in new development each year has been established.

Performance Criteria: The number of systems using the program and acres with higher value crops can be reported yearly.

Milestones: The milestone will be set for X amount of acres to be developed yearly. Efficiency of systems to be reported yearly.

**LFD
COMMENT**

The department was asked to rewrite this milestone. They provided: "To have 3000 acres of new land under irrigation annually", which is actually performance criteria.

FTE: No new FTE would be hired. Existing staff will be used.

Funding: No new fees will be charged.

Obstacles: Huge obstacles for irrigation development stand in the way in the areas of pumping costs and materials cost. Many of the projects we are assisting with are lifting water at a proposed energy cost on the open market of \$70 or more per acre. In addition, the materials to develop a new irrigation system can entail over \$1,800 per acre. Both of these obstacles are being addressed and can be reduced but not eliminated.

Risk: Economic development will suffer. This program assists in the development of several thousand acres of new irrigation each year. This will help to stop the decline some rural communities are experiencing.

**LFD
ISSUE****Incomplete Information/RIT Funding**

The proposal does not provide a clear picture of what the department intends to accomplish with this program. The milestones should provide a snap shot of what will be accomplished in the biennium. This could include when grant cycles will start, when grants will be released, and any public education regarding the grant program. The lack of this information would make it difficult for the legislature to determine if significant portions of the program were completed during the interim.

In addition, during the HJR 36 RIT study, the LFC subcommittee suggested that this program be rolled into the renewable resource grant program. This proposal is funded with reclamation and development dollars.

The legislature may wish to:

- Receive program milestones prior to deliberations
- Switch the funding to renewable resources to reflect the intentions of the RIT subcommittee

DP 2308 - Missouri River Council - Fifteen conservation districts have joined together to coordinate comprehensive resource management issues on the Missouri River. The executive requests base authority to pay expenses related to the council's work.

LFD
ISSUE

Measurable Criteria

The mission of the Missouri River Council is to represent natural resource and environmental interests on the Missouri River. This council believes the conservation of the river and its corridor and the sustainability of its various uses can best be accomplished through grassroots collaboration, education, incentives, and voluntary action. The activities of the Missouri River Council are similar to the Yellowstone River Council as described in DP 2307 and the issue of performance criteria is also similar.

Performance Criteria

The council does not publish a set of performance criteria that would be utilized in measuring their progress towards the overall goal of sustaining a healthy Missouri River. The legislature may wish to track progress as it occurs. To do this the legislature could request performance management reporting after critical milestones as language in HB 2 or in a companion bill.

Funding

The issue for the legislature is whether to appropriate funding without knowing how progress towards the goals is measured. Prior to deliberations the legislature may wish to review any performance criteria of the council.

DP 2311 - Conservation District Watershed Position - The executive requests 1.00 FTE and state special revenue to coordinate watershed management between the Conservation Districts (CDs), federal, and state agencies. The Conservation District Bureau provides technical and financial assistance to CDs in support of watershed efforts and participates on the Watershed Coordinating Council.

DP 2314 - Conservation Dist Operating-Coal Bed Methane RST - The executive requests state special revenue to provide funding to the conservation districts to process landowner claims for the coal bed methane protection program. Funds would provide legal and technical assistance to evaluate landowner claims.

LFD
COMMENT

The coal bed methane (CBM) protection program was established for the purpose of compensating private landowners and water rights holders for damage to land and to water quality and availability that is attributable to the development of CBM wells. Statute limits the payments in FY 2008 and 2009 to emergency situations where the loss of a water supply must be replaced to avoid substantial damage. The conservation districts are charged with managing the program and are eligible for reimbursement of expenses associated with managing the program. The statute does not limit the reimbursement to any particular cost or activity.

Language

"The department is appropriated up to \$600,000 for the 2009 biennium from the state special revenue account established in 85-1-604, MCA, for the purchase of prior liens on property held as loan security as required by 85-1-618, MCA."

"The department is authorized to decrease federal special revenue in the Pollution Control and/or Drinking Water Revolving Fund Loan programs and increase state special revenue by a like amount within the Special Administration Account when the amount of federal EPA CAP funds have been expended or federal funds and bond proceeds will be used for other program purposes."

"There is appropriated up to \$1,000,000 for the biennium from the Coal Bed Methane Protection Account to fund possible landowner/water right holder claims for emergency loss of water."

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	149.50	0.00	5.50	155.00	0.00	5.50	155.00	155.00
Personal Services	7,033,696	1,139,151	239,056	8,411,903	1,164,123	239,661	8,437,480	16,849,383
Operating Expenses	2,459,393	2,290,209	321,772	5,071,374	449,789	303,994	3,213,176	8,284,550
Equipment	13,188	17,858	0	31,046	(12,516)	0	672	31,718
Capital Outlay	3,000	0	0	3,000	0	0	3,000	6,000
Transfers	0	0	0	0	0	0	0	0
Debt Service	371,731	98,013	0	469,744	98,013	0	469,744	939,488
Total Costs	\$9,881,008	\$3,545,231	\$560,828	\$13,987,067	\$1,699,409	\$543,655	\$12,124,072	\$26,111,139
General Fund	6,271,348	724,106	380,969	7,376,423	743,572	366,558	7,381,478	14,757,901
State/Other Special	3,523,534	2,708,083	179,859	6,411,476	842,674	177,097	4,543,305	10,954,781
Federal Special	86,126	113,042	0	199,168	113,163	0	199,289	398,457
Total Funds	\$9,881,008	\$3,545,231	\$560,828	\$13,987,067	\$1,699,409	\$543,655	\$12,124,072	\$26,111,139

Program Description

The Water Resources Division is responsible for many programs associated with the uses, development, and protection of Montana's water. It manages and maintains the state-owned dams, reservoirs, and canals. The division also develops and recommends in-state, interstate, and international water policy to the director, Governor, and legislature. The division consists of an administration unit and four bureaus: Water Management Bureau, Water Rights Bureau, State Water Projects Bureau, and the Water Operations Bureau.

Program Highlights

Water Resources Division Major Program Highlights	
<ul style="list-style-type: none"> ◆ The executive is seeking authority to repair four water projects ◆ Technical assistance is requested to provide scientific support to the legal challenge of the Yellowstone Water Compact ◆ Funding to implement the propose surface water ground water permitting legislation is proposed 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ The appropriation for water projects does not adequately address backlog of maintenance and rehabilitation ◆ The plan to provide technical assistance to the Yellowstone Water Compact is incomplete 	

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Water Resources Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 6,271,348	63.5%	\$ 7,376,423	52.7%	\$ 7,381,478	60.9%
01100 General Fund	6,271,348	63.5%	7,376,423	52.7%	7,381,478	60.9%
02000 Total State Special Funds	3,523,534	35.7%	6,411,476	45.8%	4,543,305	37.5%
02104 Miscellaneous State Spec Rev	-	-	81,050	0.6%	84,292	0.7%
02145 Broadwater O & M	394,631	4.0%	407,862	2.9%	408,759	3.4%
02216 Water Storage St Sp Rev Acct	-	-	625,000	4.5%	-	-
02272 Renewable Resources Grnt/Loans	18,892	0.2%	18,904	0.1%	18,908	0.2%
02351 Water Project Lands Lease Acct	8,546	0.1%	9,203	0.1%	9,310	0.1%
02404 Water Project Loans	210,193	2.1%	308,206	2.2%	308,206	2.5%
02409 General License	40,744	0.4%	(8,849)	-0.1%	(11,835)	-0.1%
02430 Water Right Appropriation	575,550	5.8%	796,276	5.7%	794,676	6.6%
02431 Water Adjudication	1,988,597	20.1%	2,437,561	17.4%	2,444,311	20.2%
02458 Reclamation & Development	86,319	0.9%	214,550	1.5%	209,771	1.7%
02470 State Project Hydro Earnings	161,538	1.6%	1,431,538	10.2%	186,538	1.5%
02825 Water Well Contractors	38,524	0.4%	90,175	0.6%	90,369	0.7%
03000 Total Federal Special Funds	86,126	0.9%	199,168	1.4%	199,289	1.6%
03034 Yellowstone Groundwater Nps	23,000	0.2%	36,500	0.3%	36,500	0.3%
03094 Fema Federal Grants	63,126	0.6%	162,668	1.2%	162,789	1.3%
Grand Total	<u>\$ 9,881,008</u>	<u>100.0%</u>	<u>\$ 13,987,067</u>	<u>100.0%</u>	<u>\$ 12,124,072</u>	<u>100.0%</u>

The Water Resource Division is predominantly funded with general fund, state special revenue, and a minor amount of federal revenue. Sources and purpose of state special revenue include:

- Water storage account funded by direct allocation of RIT interest and revenue from water purchase contracts for the purpose of construction, operation, maintenance, and rehabilitation of state water storage projects
- Water rights fees derived from fees collected to record rights to support water rights management
- Income derived from state owned hydroelectric projects for repair and rehabilitation of state owned water projects
- Fees from water well contractors that support the Board of Water Well Contractors

General fund is utilized for personal services, general operating costs, and specific activities such as preparing for water litigation and map modernization. Federal funds are from Federal Emergency Management Agency (FEMA) grants and the Bureau of Reclamation.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments													
Fiscal 2008						Fiscal 2009							
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds				
Personal Services				1,475,107					1,501,111				
Vacancy Savings				(340,356)					(341,388)				
Inflation/Deflation				64,567					67,881				
Fixed Costs				84,875					104,373				
Total Statewide Present Law Adjustments				\$1,284,193					\$1,331,977				
DP 2401 - Water Resources Operating Adjustment IT	0.00	86,538	142,700	13,500	242,738	0.00	67,005	142,427	13,500	222,932			
DP 2402 - State Water Projects Rehabilitation BIE/OTO	0.00	0	1,895,000	0	1,895,000	0.00	0	25,000	0	25,000			
DP 2404 - Community Assistance Program (CAP) Federal	0.00	0	0	85,000	85,000	0.00	0	0	85,000	85,000			
DP 2408 - Flathead Basin Commission Operating Adjustment IT	0.00	0	11,800	0	11,800	0.00	0	8,000	0	8,000			
DP 2409 - BWWC Operating Adjustment	0.00	0	26,500	0	26,500	0.00	0	26,500	0	26,500			
Total Other Present Law Adjustments				0.00	\$86,538	\$2,076,000	\$98,500	\$2,261,038	0.00	\$67,005	\$201,927	\$98,500	\$367,432
Grand Total All Present Law Adjustments				\$3,545,231					\$1,699,409				

LFD COMMENT

Personal Services Adjustments – The components driving the personal service adjustment include approximately \$480,000 for vacancies in the base year and \$305,000 for non-legislative pay adjustments. The remainder is to annualize the previous pay plan, longevity adjustments, and increases to employer paid health insurance premiums. The non legislative pay increases are attributed to market adjustments provided under pay plan 20.

DP 2401 - Water Resources Operating Adjustment IT - The executive requests an increase to restore base operating expenses. The request includes overtime at the Broadwater hydropower facility, increased contracted services for water right files and adjudication, the stream gauging program, regional and water right adjudication program rent, operating costs associated with the St. Mary's hydrologist position that was not filled until January 2006, and debt service for repayment of a federal loan for rehabilitation on the Middle Creek Dam.

DP 2402 - State Water Projects Rehabilitation BIE/OTO - The executive recommends this one-time-only biennial appropriation of \$1.9 million for the following:

- o \$1.1 million for design and construction documents for Ackley Lake Dam
- o \$75,000 for engineering evaluation for ht modification of Cataract Dam
- o \$75,000 for engineering consultation for design of outlet modifications and seepage control measures at Deadman's Basin Dam
- o \$620,000 for replacement of the east fork siphon on Flint Creek
- o \$50,000 to obtain survey work on an as needed basis

LFD ISSUE**Future Rehabilitation Costs**

The projects were built with federal funding to be operated by individual water users associations. Over the course of time, neither the state nor the water users associations established a fund for future maintenance needs. The burden of the repairs has fallen to the state. There are thirteen state owned water projects on the anticipated future rehabilitation cost estimate worksheet requiring \$31.5 million in repairs. This includes the projects that are included in this proposal, but does not include any repairs to state owned canals.

**LFD
ISSUE
CONT.**

The risks associated with delayed rehabilitation include water losses, or in case of project failure, loss of property and lives downstream. The department would most likely have access to federal funds in case of an emergency repair. The department does not have an overall strategic financing plan for project rehabilitation, which leaves the state at risk.

The legislature may wish to:

- Request a study resolution to develop a comprehensive plan to address the increasing rehabilitation and repair needs of state owned water projects and canals
- Request the department to report to the Environmental Quality Council during the interim with a plan to address the increasing needs of state owned water projects and canals

DP 2404 - Community Assistance Program (CAP) Federal - The executive requests federal special revenue to continue local flood plain management programs funded through FEMA. The primary purpose of the grant is to reduce the damage claims to the National Flood Insurance program through education and training.

DP 2408 - Flathead Basin Commission Operating Adjustment IT - The executive is requesting a biennial increase of \$19,800 for the Flathead Basin Commission's operational budget. This adjustment includes \$3,800 for computer equipment, \$10,000 for non-employee travel, and \$5,000 for increased rent and utility costs.

**LFD
ISSUE****Eliminating Costs**

This proposal requests an additional \$500 per year for electricity costs. Electricity costs are included in the inflation/deflation calculation and subsequent adjustment. This request doubles the authority for electricity costs. The legislature may wish to reduce this package by \$500 per year.

DP 2409 - BWWC Operating Adjustment - The executive recommends restoration of state special revenue authority for the Board of Water Well Contractors (BWWC) per diem, contracted legal services, and other litigation costs, and for restoration of operating costs due to the board's support position being vacant for six months of the base year.

New Proposals

New Proposals										
Fiscal 2008						Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2403 - Water Rights Records Optical Imaging-ITSD										
24	1.00	0	117,961	0	117,961	1.00	0	117,978	0	117,978
DP 2405 - Yellowstone Compact Study and Hydrologist RST										
24	1.00	119,602	0	0	119,602	1.00	113,794	0	0	113,794
DP 2406 - St. Mary Administrative Position										
24	0.50	0	20,027	0	20,027	0.50	0	18,534	0	18,534
DP 2407 - Upper Clark Fork Steering Committee										
24	0.00	0	20,000	0	20,000	0.00	0	20,000	0	20,000
DP 2411 - Map Modernization Program State Match IT										
24	0.00	115,000	0	0	115,000	0.00	115,000	0	0	115,000
DP 2412 - Surface Water/Ground Water Permitting Process (Requires Legislation)										
24	3.00	146,367	21,871	0	168,238	3.00	137,764	20,585	0	158,349
DP 2413 - DFWP Dam Engineer										
24	0.00	0	0	0	0	0.00	0	0	0	0
Total	5.50	\$380,969	\$179,859	\$0	\$560,828	5.50	\$366,558	\$177,097	\$0	\$543,655

DP 2403 - Water Rights Records Optical Imaging-ITSD - The executive requests 1.00 FTE and state special revenue authority to continue the conversion from microfilm to digital technology and utilization of document-scanning technology for water right records.

**LFD
ISSUE****Progress Reporting**

This activity began in the 2007 biennium with one-time-only funding. The department has completed conversion on 11,500 of the 350,000 existing water right files. The anticipated completion date for this project is 2011. The legislature may wish to condition this appropriation as one-time only to determine biennial progress on this activity.

DP 2405 - Yellowstone Compact Study and Hydrologist RST - The executive recommends 1.00 FTE and general fund authority to coordinate technical work associated with potential litigation of the Yellowstone River Compact. The position will also monitor surface water flow and precipitation and collect water samples for chemical analyses. \$100,000 will be used to match \$100,000 from Wyoming for this study.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: Provide any corresponding data that supports the activity. Protecting existing and future potential beneficial uses (agriculture, recreation, fisheries, drinking water) of water in the Yellowstone River basin, through securing Montana's water entitlements under the Yellowstone River Compact.

Goals:

- o Quantify Montana's (and to the extent possible Wyoming's) pre-1950 and post-1950 water uses and entitlements (mainly irrigation and water storage) in Tongue and Powder River basins
- o Monitor stream flow, precipitation and water quality
- o Develop numerical models of surface and groundwater flows and water quality in the Tongue and Powder River
- o To the extent possible, participate in joint water-use study with Wyoming State Engineers office
- o Assist state Attorney General's office with development of technical basis for litigation with Wyoming to protect Montana's water

Performance Criteria:

- o Technical analyses and project completion reports prepared on each task above
- o Preparation of technical analyses in support of AG's office litigation
- o Quarterly monitoring by Bureau Chief, Division Administrator and assistant Attorney General

Milestones: Specific milestones and target dates are contingent upon the degree of cooperation provided by Wyoming. If litigation before the U.S. Supreme Court is necessary, the duration of FTE would be about ten years.

The joint water use study with Wyoming is contingent upon developing an acceptable joint study scope and would require about two years to complete (starting in July 2007 and ending in July 2009). Litigation might preclude completion of the study and unallocated funds would be used in support of litigation.

FTE: One hydrologist to be hired July 2007, no recruitment concerns.

Funding: General Fund

Obstacles: Depending upon the timing of litigation, information on Wyoming water uses may be difficult to obtain.

Risk: Lacking adequate resources significantly jeopardizes Montana's ability to effectively litigate with Wyoming. The division will attempt to re-allocate already limited staff resources to conduct technical studies in support of litigation with Wyoming if this package is not approved.

**LFD
ISSUE**

The Yellowstone compact was approved in 1950 to protect pre-1950 water rights in both states and allocate the remaining post 1950's flow in accordance with a negotiated apportionment formula. The state is contending that the compact has not been properly administered, leaving Montana short of water entitlements in many years. This decision package would provide the technical data necessary to proceed with litigation against Wyoming. The executive's budget includes a request for \$3.0 million of one-time authority of general fund for the Attorney General for this purpose.

There are a number of issues with this proposal: 1) cooperation from the state of Wyoming; 2) involvement of the Department of Environmental Quality (DEQ); 3) use of resources; 4) legislative oversight; and 5) the lack of an interim plan.

The proposal includes a potential joint water study with the State of Wyoming to determine the status of pre-1950 water rights. This portion of the study is dependent upon the cooperation of Wyoming. The proposal does not indicate how the research activity would be completed without Wyoming's cooperation.

This proposal includes chemical analysis of the water, which is not a function of the department. Water quality issues are within the purview of DEQ. The proposal does not present a link with DEQ for this purpose and there is not a corresponding request for support in the executive's budget for DEQ.

Potential litigation against a neighboring state over water quality and quantity may be of significant import to require legislative oversight by an interim committee. The progress of the research and subsequent filing of litigation could be followed during the interim by the Environmental Quality Council (EQC).

The milestones listed within the proposal do not provide any indication of the type of work that will be accomplished during the biennium. For example, the hiring of the FTE, scoping of the joint study, coordination plan with DEQ, etc.

The legislature may wish to address these issues with the following:

- Require the department to provide the following additional information prior to deliberations:
 - Status of the litigation plan
 - A research plan without cooperation from Wyoming
 - Description of the link with the DEQ for water quality issues
 - Provision of estimated milestones for the 2009 biennium
- Condition the appropriation to require quarterly or semi-annual progress reports to the EQC

DP 2406 - St. Mary Administrative Position - The executive requests 0.50 FTE and state special revenue authority to provide administrative support for the St. Mary's rehabilitation project working group and staff.

DP 2407 - Upper Clark Fork Steering Committee - The executive requests \$40,000 of state special revenue authority for the biennium to fund the Upper Clark Fork River Basin Steering Committee. The requested funding would allow the steering committee to address its statutory mandates and to continue discussions with water users and policy makers how completion of the adjudication will affect water management in Montana.

DP 2411 - Map Modernization Program State Match IT - The executive requests \$230,000 of general fund for the biennium to provide contract engineering and mapping services to augment floodplain mapping during the ongoing national effort by FEMA to update all floodplain maps in the state.

**LFD
COMMENT**

The current federal funding provides for converting FEMA floodplain maps to GIS technology. This requested would allow for new flood zone mapping during the conversion process.

DP 2412 - Surface Water/Ground Water Permitting Process (Requires Legislation) - The executive requests 3.00 FTE, general fund and state special revenue for the biennium to implement the determination that surface water and ground water are connected. These includes evaluation of the potential interaction of increased ground water developments on surface water supplies in closed basins, and evaluate the management and mitigation activities required to prevent adverse effect on other users, especially existing users of surface water resources. This request is contingent on the passage and approval of LC 0218.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: Avoid delays in processing that have an economic impact on local economies and create the potential for increased costs due to court actions.

Goal: To efficiently and thoroughly analyze new uses of water to ensure existing users are not harmed.

Performance Criteria: Water rights program staff currently monitors workloads monthly to ensure resources are distributed appropriately to meet statutory duties. Until the legislation proposed is adopted there is no opportunity for new groundwater development in some closed basins for certain subdivision and public water supplies.

Milestones: Legislation will result in approximately 150 additional groundwater permit and change applications per year. They will require review by a water resource specialist and geohydrologist. Current staff reviews approximately 500 applications per year. Maintaining current rate of review will ensure the review is completed within the statutory deadline of 180 days.

FTE: The additional 3.0 FTE requested would be hired in July 2007. No recruitment concerns.

Funding: This package is funded with 87 percent general fund and 13 percent water right appropriation fees. The water rights appropriation fee is collected to process new appropriations.

Obstacles: With the increase in development of groundwater by growing population in new sectors for public water supplies and recent court decisions on the interconnection of ground and surface water, additional staff must be acquired to address these demands. There are statutory deadlines for the agency to complete its review. Additional staff will ensure that these continue to be met. Water Rights Program staff currently monitor workloads monthly to ensure resources are distributed appropriately to meet our statutory duties.

Risk: Delays in processing new permit applications will result. Prioritization of workload and tasks to these applications will cause delays in meeting agency mandates, water right application processes, complaint investigations and objection resolutions.

**LFD
ISSUE**

The purpose of the proposed legislation is to address the interconnectivity of surface and ground water as it relates to water availability. Growth in subdivision development that is not connected to a municipal service system relies on groundwater sources to provide water for the development. The proposal would provide FTE and operating costs to review the impact of new subdivisions utilizing common water systems on the existing groundwater uses as well as surface users.

The proposal does not include measurable performance criteria or clear milestones. The performance criteria could be written to assure timelines of the permitting process. Milestones could include functions of hiring, training and public education potentially required from the statutory change. Without this information the legislature does not have a basis to determine success at a later date.



- Prior to deliberations the legislature may wish to:
- Request measurable performance criteria
 - Request proposed milestones to determine what may be completed within the biennium

The applicant is required to request a permit to complete the process. The decision package is funded with 87 percent general fund and 13 percent water right appropriations. The issue for the legislature is to determine to what extent the state as a whole benefits from this activity and consequently is appropriately funded with general fund or whether the primary beneficiary is the water right owner who pays the fee. The legislature may wish to:

- Fund the entire package with water appropriation fees
- Change the percentage between general fund and water appropriation fees

DP 2413 - DFWP Dam Engineer - The executive recommends state special revenue of \$81,050 in FY 2008 and \$84,292 in FY 2009 for an engineering position that would provide dedicated engineering services for the maintenance and rehabilitation of the 10 dams owned by the Department of Fish, Wildlife, and Parks (FWP). The position will be paid from a contract with DFWP. The request appears as a zero cost, because it is a funding switch between two state special revenue funds.



This service was previously funded by a direct appropriation of general license funds to the department. The decision was made for FWP to maintain the funding for this position in their budget, enter into a contract agreement with DNRC, and provide an administrative appropriation to DNRC to have appropriation authority to pay for the position. This decision package does not reflect this plan. If the department is going to accept an administrative appropriation from FWP, the needed authority will be provided at that time. If approved, this package would provide an additional \$165,432 in unrestricted state special revenue authority.

In order to match the proposed plan, this decision package should be disapproved and a new decision package created to remove \$165,342 in authority from the division's current base budget.

Language
“During the 2009 biennium, up to \$1 million of funds currently in or to be deposited in the Broadwater replacement and renewal account is appropriated to the department for repairing or replacing equipment at the Broadwater hydropower facility.”
“During the 2009 biennium, up to \$70,000 of interest earned on the Broadwater water users account is appropriated to the department for the purpose of repair, improvement, or rehabilitation of the Broadwater-Missouri diversion project.”
“During the 2009 biennium, up to \$500,000 of funds currently in or to be deposited in the state project hydropower earnings account is appropriated for the purpose of repairing, improving, or rehabilitating department state water projects.”

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	9.00	(1.00)	0.00	8.00	(1.00)	0.00	8.00	8.00
Personal Services	586,759	(6,966)	0	579,793	(6,015)	0	580,744	1,160,537
Operating Expenses	118,640	6,365	97,500	222,505	8,467	97,500	224,607	447,112
Total Costs	\$705,399	(\$601)	\$97,500	\$802,298	\$2,452	\$97,500	\$805,351	\$1,607,649
General Fund	705,399	(601)	97,500	802,298	2,452	97,500	805,351	1,607,649
Total Funds	\$705,399	(\$601)	\$97,500	\$802,298	\$2,452	\$97,500	\$805,351	\$1,607,649

Program Description

The Montana Reserved Water Rights Compact Commission was created by the legislature in 1979 as part of the state-wide water rights adjudication effort. It consists of four members appointed by the Governor, two by the President of the Senate, two by the Speaker of the House of Representatives, and one by the Attorney General. Members serve for four years. The commission negotiates water rights with the Indian tribes and federal agencies that claim federal reserved water rights within the state, to establish a formal agreement (compact) on the amount of water to be allocated to each interest. Legal, technical, and administrative staff supports the commission. The commission is scheduled to sunset on July 1, 2009.

Program Highlights

Reserved Water Rights Compact Commission Major Program Highlights	
♦	The operating adjustment removes a position that is no longer needed
♦	The activities of the commission sunset July 1, 2009

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Reserved Water Rights Co						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 705,399	100.0%	\$ 802,298	100.0%	\$ 805,351	100.0%
01100 General Fund	705,399	100.0%	802,298	100.0%	805,351	100.0%
Grand Total	<u>\$ 705,399</u>	<u>100.0%</u>	<u>\$ 802,298</u>	<u>100.0%</u>	<u>\$ 805,351</u>	<u>100.0%</u>

The commission is funded exclusively with general fund.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2008						Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				62,942						63,981
Vacancy Savings				(25,987)						(26,031)
Inflation/Deflation				1,288						1,534
Fixed Costs				144						703
Total Statewide Present Law Adjustments				\$38,387						\$40,187
DP 2502 - RWRCC Operating Adjustment										
(1.00)	(38,988)	0	0	(38,988)		(1.00)	(37,735)	0	0	(37,735)
Total Other Present Law Adjustments										
(1.00)	(\$38,988)	\$0	\$0	(\$38,988)		(1.00)	(\$37,735)	\$0	\$0	(\$37,735)
Grand Total All Present Law Adjustments				(\$601)						\$2,452

LFD COMMENT

Personal Services Adjustments – The components driving the personal service adjustment includes approximately \$20,500 for non-legislative pay adjustments in the base year. The remainder is to annualize the previous pay plan, longevity adjustments, and increases to employer paid health insurance premiums. The non-legislative pay increases are attributed to market adjustments provided under pay plan 20.

DP 2502 - RWRCC Operating Adjustment – The executive requests a reduction of \$38,988 in FY 2008 and \$37,735 in FY 2009 which reflects the operational adjustments for commission per diem, rent, and removal of 1.00 FTE in anticipation of the commission sunset date of July 1, 2009.

New Proposals

New Proposals										
Fiscal 2008						Fiscal 2009				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 2501 - RWRCC Contracted Services OTO										
25	0.00	97,500	0	0	97,500	0.00	97,500	0	0	97,500
Total	0.00	\$97,500	\$0	\$0	\$97,500	0.00	\$97,500	\$0	\$0	\$97,500

DP 2501 - RWRCC Contracted Services OTO - The executive requests one-time only general fund of \$97,500 each year of the biennium to provide contract services for a fisheries biologist and engineer primarily to support negotiations with the Confederated Salish and Kootenai Tribe (CSKT).

Language

"It is the intent of the Legislature that the Department of Natural Resources and Conservation create a new Compact Implementation Bureau under the Water Rights Division consisting of 5.00 FTE and current budget levels. The bureau would be charged with follow up work that must occur following the sunset of the Reserved Water Rights Compact Commission on July 1, 2009. Follow up work will include, but not be limited to, congressional approvals, water court approvals, technical reports, archiving documents and creating a digital library, engineering and hydrological oversight of ongoing water projects envisioned by the various compacts, joint water management with the Tribes, legal interpretation, compact administration, and dispute resolution functions."

LFD ISSUE**Implementation after Commission Sunset**

This language appropriation essentially converts this division to a bureau with the Water Resources Division when authority for the commission sunsets. This is not an appropriate use of HB 2 language as it is not tied to a specific decision package or line item. In addition, the commission does not sunset until July 1, 2009. The legislature will have the ability to establish an implementation plan and appropriate funding for such a plan during the 2009 legislative session.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	289.87	2.50	1.00	293.37	2.50	1.00	293.37	293.37
Personal Services	13,755,072	1,435,227	51,462	15,241,761	1,492,315	51,496	15,298,883	30,540,644
Operating Expenses	5,787,272	929,142	1,073,675	7,790,089	915,114	1,056,500	7,758,886	15,548,975
Equipment	989,435	62,350	1,390,000	2,441,785	12,500	390,000	1,391,935	3,833,720
Capital Outlay	118,347	3,771	0	122,118	3,771	0	122,118	244,236
Grants	184,491	0	100,000	284,491	0	100,000	284,491	568,982
Transfers	809,421	150,475	5,000,000	5,959,896	167,930	5,000,000	5,977,351	11,937,247
Debt Service	6,760	0	0	6,760	0	0	6,760	13,520
Total Costs	\$21,650,798	\$2,580,965	\$7,615,137	\$31,846,900	\$2,591,630	\$6,597,996	\$30,840,424	\$62,687,324
General Fund	7,908,910	647,911	6,507,400	15,064,221	672,640	5,507,400	14,088,950	29,153,171
State/Other Special	12,530,277	1,759,552	1,207,737	15,497,566	1,744,098	1,190,596	15,464,971	30,962,537
Federal Special	1,211,611	173,502	(100,000)	1,285,113	174,892	(100,000)	1,286,503	2,571,616
Expendable Trust	0	0	0	0	0	0	0	0
Total Funds	\$21,650,798	\$2,580,965	\$7,615,137	\$31,846,900	\$2,591,630	\$6,597,996	\$30,840,424	\$62,687,324

Program Description*Forestry Division*

The Forestry Division is responsible for planning and implementing forestry programs statewide. Forestry responsibilities include protecting natural resources from wildfire, regulating forest practices, and providing a variety of services to private forest landowners. Specific programs include:

- Fire and Aviation Management - Protecting 50 million acres of state and private forest and watershed lands from wildfire through a combination of direct protection and county support.
- Forest Practice Regulation - Enforcing Montana's streamside management zone regulations and monitoring the voluntary best management practices program on all forests in Montana.
- Administering Montana Fire Hazard Reduction Law - Ensuring that the fire hazard created by logging and other forest management operations on private forest lands is adequately reduced, or that additional fire protection is provided until the hazard is reduced.
- Providing Forestry Services - Providing technical forestry assistance to private landowners, businesses, and communities.
- Tree and Shrub Nursery - Growing and selling seedlings for conservation and reforestation plantings on state and private lands in Montana.

Trust Land Management

The Trust Land Management Division is responsible for managing Montana's trust land resources to provide revenues to the trust beneficiaries while considering environmental factors and protecting future income generating capacity of the land. These lands currently total 5.2 million surface acres, 6.2 million mineral acres, and approximately 6,000 miles (40,000+ acres) of the beds of navigable waterways. The division provides this through four primary programs: 1) forest management; 2) agriculture and grazing management; 3) special use management; and 4) minerals management.

Program Highlights

Forestry Division	
Major Program Highlights	
♦	The executive is requesting 13 new proposals of which 5 are inappropriately classified as present law adjustments
♦	The executive is requesting present law adjustments to the Forestry Program that are dependent upon the passage and approval of legislation to increase the direct protection fee
♦	Funding for the state's share of the remediation at the Kalispell Pole and Timber (KPT) site is requested from an RIT related
♦	The Trust Land Management program is seeking 2.00 FTE, 1.00 for the management of navigable rivers and 1.00 for mineral management
Major LFD Issues	
♦	If legislation is not passed to increase forest protection fees, the department will not receive the general fund portion either
♦	Increases in trust land management administration should have a return on investments to the trusts
♦	The KPT site could be funded with general fund as the revenues from the site were deposited to the general fund.

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table							
Forestry/Trust Lands							
		Base	% of Base	Budget	% of Budget	Budget	% of Budget
Program Funding		FY 2006	FY 2006	FY 2008	FY 2008	FY 2009	FY 2009
01000	Total General Fund	\$ 7,908,910	36.5%	\$ 15,064,221	47.3%	\$ 14,088,950	45.7%
	01100 General Fund	7,908,910	36.5%	15,064,221	47.3%	14,088,950	45.7%
02000	Total State Special Funds	12,530,277	57.9%	15,497,566	48.7%	15,464,971	50.1%
	02039 Forestry-Fire Protection Taxes	2,529,064	11.7%	3,268,271	10.3%	3,282,108	10.6%
	02073 Forestry - Slash Disposal	141,401	0.7%	132,594	0.4%	132,992	0.4%
	02104 Miscellaneous State Spec Rev	-	-	300,000	0.9%	300,000	1.0%
	02241 Dsl Recreational Use Account	89,722	0.4%	45,480	0.1%	45,501	0.1%
	02272 Renewable Resources Grnt/Loans	-	-	100,000	0.3%	100,000	0.3%
	02280 Forest Resources-Timber Sales	3,354,659	15.5%	3,825,279	12.0%	3,824,213	12.4%
	02324 State Land Bank	153,001	0.7%	275,001	0.9%	275,001	0.9%
	02449 Forest Resources-Forest Improv	1,579,196	7.3%	1,866,491	5.9%	1,869,182	6.1%
	02450 State Lands Res Dev	587,226	2.7%	699,999	2.2%	700,000	2.3%
	02458 Reclamation & Development	-	-	500,000	1.6%	500,000	1.6%
	02681 Historic Right-Of-Way Acct	5,000	0.0%	15,000	0.0%	15,000	0.0%
	02836 Commercial Leases - Tlmd	30,000	0.1%	40,000	0.1%	40,000	0.1%
	02938 Tlmd - Administration	4,061,008	18.8%	4,429,451	13.9%	4,380,974	14.2%
03000	Total Federal Special Funds	1,211,611	5.6%	1,285,113	4.0%	1,286,503	4.2%
	03415 Consol Grnt-Srvc Forestry Fy06	528,914	2.4%	400,255	1.3%	401,645	1.3%
	03416 Consolidated Grant - Fire Fy06	647,283	3.0%	634,858	2.0%	634,858	2.1%
	03418 Nonconsol Grant-Fire Fy06	35,414	0.2%	250,000	0.8%	250,000	0.8%
Grand	Total	\$ 21,650,798	100.0%	\$ 31,846,900	100.0%	\$ 30,840,424	100.0%

The Forestry Division is supported with a mix of general fund, state special revenue, and federal funding. General fund provides general division support as well as the fixed costs of the Fire and Aviation Management program. A transfer from the general fund is made to the proprietary fund, from which it is spent.

State special revenue support comes from forest improvement fees and forest protection fees. Forest improvement fees consist of \$25 for each slash hazard reduction agreement, and \$.060 per thousand board feet sold, plus any forfeited fire hazard reduction bonds. Fees are established when timber sales are approved based upon the state's projected costs of slash disposal, road maintenance, and reforestation.

The department is also required to collect up to one-third of the state's fire protection appropriation from private landowners through a forest protection fee. The other two-thirds are funded with general fund. The department is required to levy the tax so that collections equal the amount appropriated by the legislature.

The Trust Land Management division is funded with trust fund revenue, timber sales, and forest resource fees. The remaining funding is from recreational use and resource development of state lands. Because funding for state lands is taken directly from revenues, any expenditure for administration of state lands is a direct reduction in trust income. General fund is utilized for personal services for the management of non-trust state lands.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2008-----					-----Fiscal 2009-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				1,937,027					1,996,228
Vacancy Savings				(627,676)					(630,049)
Inflation/Deflation				128,603					141,859
Fixed Costs				23,588					22,378
Total Statewide Present Law Adjustments				\$1,461,542					\$1,530,416
DP 3505 - Inmate Fire Suppression Crews (Requires Legislation)									
0.50	20,508	10,564	0	31,072	0.50	20,532	10,577	0	31,109
DP 3506 - Forestry Operating Adjustment (Requires Legislation)									
0.00	152,103	70,372	214,499	436,974	0.00	163,624	76,306	214,465	454,395
DP 3507 - Interagency Fire Support (Requires Legislation)									
0.00	65,655	33,823	0	99,478	0.00	68,295	35,183	0	103,478
DP 3508 - Forestry Equipment Replacement IT OTO									
0.00	30,600	0	0	30,600	0.00	12,500	0	0	12,500
DP 3531 - Land Bank Reauthorization BIE (Requires Legislation)									
0.00	0	122,000	0	122,000	0.00	0	122,000	0	122,000
DP 3534 - Access Acquisition BIEN									
0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,000
DP 3536 - Trust Land Management Operating Adjustment									
1.00	0	69,207	0	69,207	1.00	0	75,701	0	75,701
DP 3537 - Weed Management Projects									
0.00	0	25,000	0	25,000	0.00	0	25,000	0	25,000
DP 3538 - Real Estate Management Plan									
0.00	0	50,000	0	50,000	0.00	0	50,000	0	50,000
DP 3544 - Phone Systems-Field Offices-OTO/BIEN									
0.00	0	31,750	0	31,750	0.00	0	0	0	0
DP 3545 - Historic Rights-of-Way Addition									
0.00	0	15,000	0	15,000	0.00	0	15,000	0	15,000
DP 3546 - Handheld Field Computer Equipment-OTO									
0.00	0	50,000	0	50,000	0.00	0	16,000	0	16,000
DP 3547 - Navigable River Management									
1.00	0	58,342	0	58,342	1.00	0	56,031	0	56,031
Total Other Present Law Adjustments									
2.50	\$268,866	\$636,058	\$214,499	\$1,119,423	2.50	\$264,951	\$581,798	\$214,465	\$1,061,214
Grand Total All Present Law Adjustments				\$2,580,965					\$2,591,630

**LFD
COMMENT**

Personal Services Adjustments – The components driving the personal service adjustment include approximately \$549,602 for non-legislative pay adjustments in the base year. The remainder is to annualize the previous pay plan, longevity adjustments, and increases to employer paid health insurance premiums. The non legislative pay increases are attributed to market adjustments provided under pay plan 20.

DP 3505 - Inmate Fire Suppression Crews (Requires Legislation) - The executive requests 0.50 FTE and approximately \$20,500 general fund and \$10,500 state special revenue each year of the 2009 biennium for a supervisor for a 10-person prison hand crew from the Department of Correction's work release program. This request is contingent on passage of and approval of LC 0221.

**LFD
ISSUE****Contingent Legislation**

Fire protection is funded at one-third state special revenue from forest assessments and two-thirds general fund. The forest assessment fee is paid by landowners who have forested property within the direct protection area of DNRC. In order to maintain this funding structure, the amount of the forest assessment would need to be raised. The current fee is \$ 30 annually per parcel plus an additional \$0.20 per acre in excess of 20 acres. LC 0221 proposes to raise the assessment level to continue providing this funding. The entire appropriation is contingent on the passage of that bill, including the general fund portion.

The issue for the legislature is to determine if this decision package (and subsequent related packages) should be funded if the legislation does not pass. This could be done by adding language to HB 2 to eliminate the state special revenue authority and increase the general fund by the same amount. This package would then be funded entirely with general fund should the legislation not pass. The issue with this option is that utilizing the general fund would reduce the participation of forested landowners in the protection program. The fees would still be collected, but it would not raise one-third of the total cost of the protection program.

**LFD
COMMENT**

This package is a new proposal and should be reviewed as such.

DP 3506 - Forestry Operating Adjustment (Requires Legislation) - The executive requests an increase in base authority for increased rent and janitorial costs of the division's regional offices to be covered with state special revenue authority. Federal authority is requested to provide for increased training and maintenance associate with federal assist fires and development costs for wildland engines. The general fund would be transferred to the air operations proprietary account for salaries, rent, and aircraft insurance to cover air operations fixed costs. This request is contingent on passage and approval of LC 0221.

**LFD
ISSUE****Contingent Legislation**

This package is also dependent upon the passage of LC 0221. See the discussion in DP 3505.

**LFD
COMMENT**

This package is a new proposal and should be reviewed as such

DP 3507 - Interagency Fire Support (Requires Legislation) - The executive requests general fund and state special revenue to support interagency fire costs within the Northern Rockies region. This includes an increase for the department's contract for fire protection services on state and private lands within the Flathead Indian Reservation and an increase in shared support costs associated with the Northern Rockies Coordinating Group (NRCG) for which DNRC is a partner. This request is contingent on passage and approval of LC 0221.

**LFD
ISSUE****Contingent Legislation**

This package is also dependent upon the passage of LC 0221. See the discussion in DP 3505.

**LFD
COMMENT**

This package is a new proposal and should be reviewed as such.

DP 3508 - Forestry Equipment Replacement IT OTO - This budget request is for one-time-only general fund of \$30,600 in FY 2008 and \$12,500 in FY 2009 for replacement of a network server in the Missoula Forestry office and a phone system at the Anaconda and Kalispell Units.

**LFD
COMMENT**

This package is a new proposal and should be reviewed as such.

DP 3531 - Land Bank Reauthorization BIE (Requires Legislation) - The executive requests biennial state special revenue authority to defray the costs associated with preparing the sale of state land pursuant to land banking. This includes appraisals, cultural surveys, land surveys, advertising, realtor fees, and closing costs. This request is contingent passage and approval of LC 0417.

**LFD
COMMENT**

The Land Banking program was authorized by the 2003 Legislature and involves the sale and acquisition of parcels to obtain more valuable acreage for the trusts. The Land Banking Program has a statutory time limit to complete all transactions by October 1, 2008. The proposed legislation extends that date to October 1, 2011. See the agency discussion for additional information on the Land Banking Program.

DP 3534 - Access Acquisition BIEN - The executive requests biennial state special revenue authority for purchasing access to forested state trust lands. Access to isolated trust lands has become a priority for the department and also increases the value of the land. Access is needed for timber harvest, forest improvement activities, land exchanges, recreational use by the public, and fire hazard reduction and suppression.

**LFD
COMMENT**

The acquired access does not guaranteed public access. The department does attempt to negotiate motorized or walking public access, but is not always successful. The approval of this package does not guarantee public access to isolated parcels.

DP 3536 - Trust Land Management Operating Adjustment - The executive requests an increase in the operations budget due to increased rent costs in the Helena, Bozeman, Conrad, Dillon, Lewistown, Glasgow, and Havre offices. The additional FTE is to be located in at the Northwest, Southwest and Central Land Office as a seasonal aggregate FTE for increase forest improvement workload, including burning and tree planting.

DP 3537 - Weed Management Projects - The executive requests state special revenue for contracted services for weed control, and to purchase herbicides, fund cooperative grant projects, and support bio-control efforts in order to complete additional weed control projects.

DP 3538 - Real Estate Management Plan - The executive requests additional spending authority of \$50,000 each year to implement the Real Estate Management Plan. The plan was approved by the Board of Land Commissioners in July 2005 and includes infrastructure development for commercial and industrial uses on state trust lands.

LFD
COMMENT

The Real Estate Management Plan provides the department with consistent policy, direction, and guidance in the management of real estate activities on state trust lands and for development of commercial, industrial, residential, and conservation uses. The purpose is to focus on improving land entitlements to increase income to the trusts consistent with community input and trust responsibilities. Higher rates of return would be achieved by funding improvements to enhance land entitlements.

DP 3544 - Phone Systems-Field Offices-OTO/BIEN - The executive requests a one-time-only biennial appropriation for a new phone system at the Northeastern Land Office at Lewistown and one at the Southwestern Land Office at the Clearwater Unit.

DP 3545 - Historic Rights-of-Way Addition - The executive recommends an increase for contracted services associated with processing the Historic Rights-of-Way applications.

LFD
ISSUE

Fee Not Commensurate With Costs

The department collects a \$50 fee to process all easement applications as per 77-1-130, MCA. The fee is not commensurate with costs and the department is dependent upon funding from the trust land administration account (TAC) or the resource development account to cover the remaining costs of process. The legislature may wish to request legislation to increase the right-of-way application fee in 77-1-130, MCA to a level commensurate with costs.

DP 3546 - Handheld Field Computer Equipment-OTO - The executive requests one-time only state special revenue authority for the purchase of handheld field computer units for mobile GIS and field data collection activities to reduce time spent and data errors.

DP 3547 - Navigable River Management - The executive requests 1.00 FTE and state special revenue authority to manage the Navigable Rivers Program. This funding would provide for an inventory of all navigable waterways and initiate leases for utilities formerly authorized by the federal permit.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: Permitting authority for power-generating hydroelectric facilities that resides within the bed and banks of navigable waters are also under DNRC’s jurisdiction. Owners of these facilities had, in the past, claimed exemption from the state permitting and compensatory requirements; however, on April 14, 2006, Judge Honzel granted summary judgment to the state holding that dam owners are obligated to enter into leases with the State of Montana where the dams are located upon navigable waters. This ruling has the potential to increase the workload associated with inventorying and developing lease agreements not only for these facilities, but also many other types of structures and facilities located in, under, or over the states navigable waters that exist in trespass. DNRC needs adequate staff and funding in order to fulfill the statutory obligations and court directive as provided herein.

Goal: The requested FTE will help DNRC carry out their statutory responsibilities related to the management, administration, and permitting requirements for structures on navigable waterways, resulting in a substantial increase in the revenues generated for K-12 schools.

Performance Criteria: The position description and work plan for the position will establish goals and objectives necessary to fulfill previously referenced statutory responsibilities and compliance with the court's ruling. It will be monitored under annual performance review appraisals and development of annual objectives and accomplishments by DNRC.

Milestones:

- Update, implement, and coordinate the Navigable River Policy to assure fair and consistent application of lease/license requirements and associated fees
- Provide guidance and support to DNRC land offices in all aspects of program administration
- Edit and refine, as necessary, the present inventory data for all navigable waterways
 - Inventory dams and other major structures and facilities located within navigable waterways
 - Prioritize and coordinate the inspection of these structures/facilities within established timelines and framework
 - Priority to be established based on type of facility/structure, hazard assessment, mitigation requirements, and compensatory values
- Promote and coordinate interaction of jurisdictional authority associated with multi-agency review (i.e. federal and local review; conservation districts, Indian reservations, etc.)
- Assess and mitigate impacts of social and recreational issues, threatened or endangered species, and potential liability to the state through compliance with MEPA
- Assure that the installation, removal, and remediation of known or potential hazardous structures or other obstacles located on, across, or under navigable waterways are completed within mandated timeframes, if so imposed, and in compliance with state and federal laws. Examples of recent or current projects are:
 - Removal of abandoned logs in the Swan River, Swan Lake, Flathead Lake, and Seeley Lake
 - Renovation of a dilapidated irrigation structure in the Clark Fork River near the Higgins Street Bridge in Missoula
 - Repair of a private bridge over the Bitterroot River and a footbridge over Lolo Creek
 - Boring under the bed of the Clark Fork River for installation of the Yellowstone Pipeline used for transport of petroleum
 - Boring under the bed of Nine Mile Creek for installation of an electric transmission line by Missoula Electric Cooperative

FTE: The hire date would be within 3 months of approval of the FTE.

Funding: The position and related operations costs would be funded by the trust land administration account

Obstacles: None

Risk: DNRC may not be able to carry out statutory mandates, as well as the court's ruling in a timely manner. The ability to inventory and assess appropriate lease fees that could generate \$4.0 to \$5.0 million annually would be at risk and delayed.

**LFD
ISSUE**

The department is currently handling this workload through the land offices. This proposal would enable the department to have a program manager that would provide overall guidance to the program. The goal clearly states that an increase in revenues will occur from this activity, but the provided performance criteria do not address the potential magnitude of this revenue. The legislature may wish to dialogue with the department to establish performance criteria based on potential returns.

**LFD
COMMENT**

This proposal addresses only lease revenue due at this time. A court case is pending regarding the resolution of back payments for dam located on navigable rivers.

New Proposals

New Proposals										
Program	FTE	Fiscal 2008				FTE	Fiscal 2009			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 3501 - Radio Communications IT RST										
35	0.00	257,400	132,600	0	390,000	0.00	257,400	132,600	0	390,000
DP 3502 - Urban Forestry Funding Change										
35	0.00	0	100,000	(100,000)	0	0.00	0	100,000	(100,000)	0
DP 3503 - Fire Fighting Equipment - Rst/Bien/OTO										
35	0.00	1,000,000	0	0	1,000,000	0.00	0	0	0	0
DP 3504 - On-Going General Fund Support for Fire Fighting										
35	0.00	5,000,000	0	0	5,000,000	0.00	5,000,000	0	0	5,000,000
DP 3530 - NELO Land Use Specialist										
35	1.00	0	55,137	0	55,137	1.00	0	52,996	0	52,996
DP 3533 - Habitat Conservation Plan (HCP) Implem & Monit										
35	0.00	0	120,000	0	120,000	0.00	0	105,000	0	105,000
DP 3535 - Land Exchange Reimbursement										
35	0.00	0	300,000	0	300,000	0.00	0	300,000	0	300,000
DP 3542 - Reliance Refinery Remediation-BIE/OTO										
35	0.00	0	500,000	0	500,000	0.00	0	500,000	0	500,000
DP 3549 - Woody Biomass Utilization Program - OTO										
35	0.00	250,000	0	0	250,000	0.00	250,000	0	0	250,000
Total	1.00	\$6,507,400	\$1,207,737	(\$100,000)	\$7,615,137	1.00	\$5,507,400	\$1,190,596	(\$100,000)	\$6,597,996

DP 3501 - Radio Communications IT (RST) - This request would complete a conversion to compliant communications equipment over the next 5 biennium, at a projected cost of \$390,000 per year. This would entail replacement of 1,000 handheld, mobile radios and base stations, plus 29 repeater sites. Replacement and upgrades would be coordinated with other entities in the consortiums.

DP 3502 - Urban Forestry Funding Change - The executive requests a funding switch to replace \$100,000 of federal special revenue with state special revenue to fund the 2.00 FTE and operating costs for the Urban Forestry Program. The remaining federal authority would be utilized to support the grant opportunities for cities and towns.

**LFD
COMMENT**

This request is for renewable resource appropriation authority. This fund is an RIT related fund which was studied during the interim at length. (See agency discussion for more information.) To prioritize this request with the other RIT funded activities, the department was asked to provide the same programmatic information provided to the RIT subcommittee. The following was provided by the department and edited only for clarity or brevity by LFD staff.

- Is the function consistent with the purpose of the RIT or RIGWA taxes as outlined in statute?

The mission of the Urban Forestry Program is to assure urban forests within Montana communities have self sustaining programs. This effort encompasses information/education, technical assistance, and financial assistance and partnership components. Urban forests contribute to community economics and community member quality of life. Urban forests provide economic benefits, for example, in attractiveness of community affecting tourism and a desirability of location. Urban forests also help in temperature control, shade, air quality, aesthetic value, enhancing open space and many emotional/psychological qualities. RIT funding would be directed toward grant projects that would enhance the renewable natural resources benefits and long term stability of Montana's urban forests.

- Are measurable performance goals and objectives in place? Describe

**LFD
COMMENT**

The Urban Forestry Program has a set of program specific Strategic Goals and Objectives that are incorporated into the Forestry Assistance Strategic Plan Goals and Objectives. Each year specific annual work objectives are set for each section of the urban forestry goals and objectives

- Is there a program-monitoring plan in place? Describe

Because the program objectives are documented in formal annual objectives, accomplishments are documented at the close of each fiscal year. The bureau is also monitoring individual accomplishments monthly through our bureau accomplishment database.

- What other funding is available?

The Urban Forestry Program has been virtually 100 percent federally funded over the life of the program. That funding comes as a grant to DNRC through the USDA Forest Service State and Private Forestry program. In recent years, that funding has ranged from \$200,000 to \$216,000. The funding supports 2.5 FTE, a very minimal operations budget and a small grants-to-communities program. Occasionally, we have received additional funding during the year if the Forest Service has additional funds. These funds largely support additional grants to communities. This funding is becoming increasingly unstable. FY 2007's grant was reduced to \$164,500, which covered personal service and about \$12,000 for operations. FY 2008 may be increased slightly, but until the federal budget is passed that is uncertain. Beyond FY 2008 is highly speculative.

**LFD
ISSUE**

The use of renewable resource funding for urban forestry activities does fall within the guidelines established for RIT expenditures. However, this is a new and potentially long term use for RIT funding. The legislature may wish to:

- Condition the appropriation as one-time only to evaluate the status of the federal funds over the biennium
- Use language in HB 2 to reduce the appropriation level if federal funds increase

DP 3503 - Fire Fighting Equipment - Rst/Bien/OTO - The executive recommends a \$1.0 million one-time-only general fund appropriation for the Forestry Division to purchase fire fighting equipment. The appropriation would be used to purchase fire fighting equipment for state use and/or local fire cooperatives. The request is also restricted and biennial.

**LFD
ISSUE****Purchasing Plan**

The plan for this proposal is two fold. Currently the US Forest Service (USFS) holds title to the department's helicopters. This is because to procure aircraft through federal surplus, the department must have a federal sponsoring agency. The sponsoring agency, in this case the USFS, holds the title to the equipment. For the state to obtain title, federal legislation must be passed. The amount that would have to be paid to the USFS is dependent upon that federal legislation. If the federal legislation does not pass or if it passes and does not require the entire \$1.0 million, the department would use the authority to reduce the amount of aged equipment in the field by building more wild land fire engines. If approved, the issue for the legislature is to determine which activity should be priority. The legislature may wish to utilize language in HB 2 or a companion bill to prioritize the activities.

DP 3504 - On-Going General Fund Support for Fire Fighting - The executive recommends an annual appropriation of \$5.0 million to support the cost of wildfire suppression in Montana. This appropriation is contingent on the passage and approval of LC 545. LC 545 would create a state special revenue fund for wildfire suppression.

**LFD
COMMENT**

See agency discussion for information regarding the proposed suppression fund.

DP 3530 - NELO Land Use Specialist - The executive requests state special revenue authority and 1.00 FTE for the minerals management program. This individual would coordinate and review of oil and gas lease sale nominations for pre-leasing stipulations, issue seismic permits for exploration, analysis and review of oil and gas developments, resolve conflicts between surface and subsurface state land uses, and monitor current lessees for oil and gas compliance.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: Due to the surge in oil and natural gas prices, the exploration and development of the state land mineral estate has increased dramatically. Over the past five years the mineral management workload has significantly increased which warrants the FTE. Extensive oil and gas leasing has occurred in large blocks of state ownership that will require coordination of state surface and subsurface use. Due to large blocks of ownership, ancillary infrastructures required to support minerals development will be a significant component. This trend of increased workload is being witnessed in other areas/units across the state. The position will be made available to other areas/units on a case-by-case basis to assist with workload issues and increase trust revenues.

Goal: The purpose of this proposal is to develop state minerals for the state trust land beneficiaries while maintaining the long-term productivity of the land for surface uses.

Performance Criteria: This position would report to the Glasgow unit manager, who would be charged with monitoring the accomplishment of mineral program objectives. Oil and gas lease exploration and development activities are accounted on a quarterly basis by the Minerals Management Bureau. The workload associated with this FTE request has already occurred and is expected to increase as a result of recent increase in lease sale activity. .

Milestones: Quarterly oil and gas lease sales, annual oil and gas revenue amounts.

FTE: FTE will be hired by July 1, 2007. It may be difficult to compete with salary levels paid by private oil and gas companies.

Funding: Trust Land Administration Fund

Obstacles: None

Risk: The risk of not securing an FTE for oil and gas development will be the loss of revenue due to delays in the processing of exploration and development permits and potential environmental degradation due to lack of proper project analysis and lease compliance monitoring.

LFD ISSUE

Return on Investment

This position is an investment in the Minerals Management Program. This program is required by law to generate revenues for the beneficiaries. The proposal does not provide any measurable criteria to determine the success of this additional position at some time in the future. The issue for the legislature to consider is whether this position will provide financial return to the trust or be a drain on revenues.

The department does not identify any obstacles. However, from the provided information it can be determined that hiring could be an issue. The department should have a contingency plan in place if the program is unable to hire this individual in a timely manner.

The legislature may wish to:

- Obtain information regarding the current delays in processing to determine workload
- Establish performance criteria for the new FTE
- Require a recruitment plan for the FTE

DP 3533 - Habitat Conservation Plan (HCP) Implem & Monit - The executive requests state special revenue for contracted services, and operating expenses, and to develop training workshops to implement and meet annual and five-year monitoring commitments for the Forest Management Habitat Conservation Plan (HCP). The purpose of the HCP is to develop a negotiated set of conservation strategies that provide longer-term management flexibility and regulatory assurances under the Endangered Species Act.

DP 3535 - Land Exchange Reimbursement - The executive requests state special revenue to enable DNRC to collect anticipated land exchange costs from the applicant, hire and pay the contractors (surveyors, appraisers, etc.), and reimburse the applicant for any unspent monies. Currently, land exchange applicants pay these costs directly to contractors.

DP 3542 - Reliance Refinery Remediation-BIE/OTO - The executive requests \$1.0 million of state special revenue authority for the state's share of anticipated site remediation costs at the Reliance Refinery superfund site located in Kalispell, Montana. Per the settlement agreement, the state is responsible for 27.5 percent of invoiced costs after January 1, 2005.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: Reliance Refinery is part of a state Superfund (CECRA) site under the regulatory authority of the Montana Department of Environmental Quality (DEQ). The department negotiated a consent decree with DEQ acknowledging the state's partial liability for site remediation and indemnifying the state from cross-claim litigation from other potentially liable parties. That consent decree was approved by the Montana First Judicial District Court. It requires the State of Montana to fund the state's proportionate share of the costs of site remediation. The share was established at 27.5 percent.

Goals: The primary goal is remediation of the site as required by CECRA. The secondary goal, relative to the state's ownership, is returning the state land to an appropriate productive use.

Performance Criteria: DEQ will evaluate the alternative remediation methods, select the remediation option that optimally meets the goals and objectives for remediation under CECRA, and produce a record of decision (ROD). This in turn provides the basis upon which to prepare a detailed site remediation plan, and solicit bid proposals for the selected remediation plan. Progress is dependent on DEQ's ability to complete these tasks, either on their own or in conjunction with potentially liable parties.

Milestones: DEQ estimates these project tasks will be complete or nearly complete by the end of FY 2009.

FTE: The work will be performed by DEQ and their contractors.

Funding: DEQ invoices liable parties for their costs, unless same are covered by other direct sources of funding. The department's settlement agreement with DEQ resulted in a negotiated settlement of \$126,890 for the State's share of costs invoiced through December 31, 2004. The department has already paid \$50,000 of this obligation.

Obstacles: As the regulator of state Superfund sites under CECRA, DEQ faces the technical challenge of selecting a final remediation alternative. The consent decree entered into between the department and DEQ resolves the state's share of liability. One other potentially liable party entered into a consent decree with DEQ. Other potentially liable parties have not settled, and litigation between liable parties and DEQ is ongoing.

Risk: The State of Montana is obligated to cover its share of costs associated with remediation of this CECRA site. If the state fails to meet that obligation, the DEQ, as regulator of the CECRA program, could seek to void the court-approved settlement agreement with DNRC. The state would ultimately still be responsible for its share of site remediation, but would also incur the cost of defending itself in further litigation, including cross-claims for liability brought against the

state by other potentially liable parties. Any delay in DEQ's ability to proceed with the steps required for site remediation obviously delays the completion of that remediation. DEQ, pursuant to its CECRA authority, considers the site to pose a threat to the public health, safety, and welfare and to the environment.

**LFD
ISSUE**
Funding Source

This proposal is funded with reclamation and development dollars, which is an RIT related account (see agency discussion for additional information on RIT). Other funding options could be considered. The state required this property under a lien foreclosure for delinquent oil taxes in 1934. The property was leased for refinery and storage operations until 1971 when contamination was discovered. Since this is sovereign state land, all revenue generated from the property went to the general fund. The legislature may wish to consider funding this package from the general fund as the general fund benefited from the activities over time. In addition, if the land is remediated and re-leased, the revenues would be deposited to the general fund.

DP 3549 - Woody Biomass Utilization Program - OTO - The executive requests one-time-only general fund to continue and enhance the Woody Biomass Utilization Program, also referred to as Fuels for Schools program. The program facilitates and promotes the beneficial use of woody biomass "waste" from forest treatments.

**LFD
ISSUE**
Replacement of Federal Funds

This is a one-time infusion of cash. The program has been supported in the past with federal funds. The program is slated for elimination by the Bush administration. This funding does not guarantee the continuation of the program past the 2009 biennium. The legislature may wish to:

- Remove the OTO restriction for continued funding for the program
- Use language in HB 2 to reduce the appropriation level if federal funds continue

Language

"The department is authorized to decrease state special revenue in the Trust Land Administration Division and increase general fund by a like amount when the amount of the administration costs of the Montana State University-Morrill Grant becomes known."

Proprietary Rates**Proprietary Program Description***Air Operations Program***Proprietary Program Description**

The air operations program in the Forestry Division is funded from the air operations proprietary account for those costs that can be supported by the aircraft rates charged for the use of the aircraft and general fund and fire protection tax revenue for fixed costs. The program operates six medium helicopters, one light helicopter, and three single engine fixed-wing airplanes. Aircraft are primarily used for fire detection, support and suppression of wildfires, and reclamation work in the Department of Environmental Quality. Fixed costs are paid by the General Fund and the Fire Protection Tax revenues since they must be paid regardless of the number of hours flown. These costs include hangar rent, insurance and personnel costs. The general fund and fire protection taxes are appropriated by the legislature and transferred to and spent from the proprietary account. Variable costs that are dependent on the hours flown, such as fuel and maintenance, are recovered through an hourly rate charged to all users of the aircraft. Users of the aircraft include DNRC, other state agencies, federal agencies and the state's wildfire suppression efforts. This revenue is also deposited in the proprietary account.

Proprietary Revenues and Expenses

The primary source of revenue is in the collection of aircraft rental charges. Additional transfer-In revenue is received from HB2 transfers of fixed costs (FTE, insurance & rent) from the general fund and the fire protection tax revenues. The department has limited cooperative agreements to assist our federal partners (U.S. Forest Service) with fire protection. The department also has agreements with other state agencies for non-fire related aircraft rental services. The customers served are comprised primarily of state land managers for the DNRC. This involves initial attack of fires under state direct protection and federal and state agencies. Historic and projected trends are dependent on length and severity of the fire season.

The cost drivers for the aircraft rates are to try and recover the actual expenses needed to maintain the aircraft in an air worthy condition and remain mission ready for the purpose of initial attack on wild fires on state and federal ground. This includes all costs associated with the maintenance and operation of that aircraft. There are some factors that contribute to the uncertainty in forecasting future expenses. This includes unforeseen events such as FAA and manufacturer directives, aircraft incidents resulting in unplanned maintenance and fluctuations in fuel and parts, and length and severity of the fire season. Average fire season and routine maintenance of aircraft are used to determine the anticipated future costs of major cost drivers. In FY 2006, non-typical expenditures were incurred in the building of a new helicopter (\$200,000).

Charges for services do not support any FTE for the aviation section. All FTE (12.26) are supported by the general fund and fire protection tax transfers-in.

Proprietary Rate Explanation

The reimbursement rates for the operation of the department aircraft are based on the time life of 5,000 hours of aircraft usage. The rate has been determined to maintain the aircraft in its original condition. At the end of 5,000 hours, all parts should have been replaced and a new maintenance / operation cycle started.

Specific services

The section provides aircraft services and charges for reimbursement by hours and tenths of hours at the following rates

\$1,075.00	Bell UH-1/H Helicopters
\$475.00	Jet Ranger Helicopter
\$150.00	Cessna 180 Series Aircraft

Tree Nursery

Proprietary Program Description

The Montana Conservation Seedling Nursery produces and distributes seedlings for conservation plantings including applications such as fire and logging reforestation, farmstead windbreaks, shelterbelts, wildlife habitat, and stream stabilization, as well as other conservation uses. The program mission is to produce the highest quality, locally-adapted, source-identified seedlings available for conservation practices in Montana and to ensure affordable seedlings are available to Montana landowners. The nursery grows an average of one million seedlings annually on 110 acres of state land and in 9,000 square feet of greenhouse space. Sixty-seven plant species are currently in production. Eight hundred ninety-five landowners purchased seedlings in FY 2006. The nursery program is funded solely from the nursery proprietary account. No general fund or federal dollars are used in the program.

Proprietary Revenues and Expenses

The primary source of revenue is seedling sales. Other revenue sources are such services as seed collection, cleaning, and storage and the sale of products for seedling care and protection. The customer base for nursery products and services is comprised of private landowners in Montana, the DNRC Trust Land Management Division, the Department of Fish, Wildlife and Parks, the Conservation Reserve Program (CRP), tribal agencies, the Wildlife Habitat Incentives Program (WHIP), Pheasants Forever, and numerous other conservation programs and organizations. Historic and projected trends in nursery revenue are dependent on conservation activity in the state, landowner access to cost-share dollars for implementation of conservation projects, and long-term seedling production contracts from large scale conservation activities. Revenue potential is also dependent on the number of seedlings available for sale each fiscal year. Sales are predicted two to three years in advance due to the two- to three-year production time needed for each seedling type. This can lead to seedling shortages or surpluses when unforeseen events such as extended drought or extreme fire seasons alter demand for seedlings.

The determining factors that set seedling prices are the actual fixed and variable costs of producing the seedlings. Market pressures from other out-of-state seedling producers can also influence prices. Prices are set to recover all program costs and to increase the year-end carryover balance. Year-end carryover dollars are used for non-typical expenses such as large equipment replacement, or for unforeseen expenses such as weather-related crop losses. Since the nursery is funded primarily by seedling sales, personal services, operating and capital equipment costs are included when setting prices.

Proprietary Rate Explanation

The price of each seedling type is set at the end of the previous fiscal year. Prices are based on the actual production costs for each seedling type. The variables involved in seedling production include seedling stock type (bare root vs. container), seed cost, propagation difficulty, cull rates, seedling age class, quantity produced, equipment costs, labor costs, and overhead charges. Given these variables, each of the 125-plus seedling types can have a different price, and the price must be adjusted annually to account for changes in fixed and variable costs.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
06538	Air Operation Internal Service	57060	Department of Natural Resources and Conservation	Forestry/Trust Lands Division

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Subsequent Injury Fund Assessment	-	-	-	-	-	-
Revenue from Bell UH-1Hs	403,550	218,312	498,108	600,000	1,075,000	1,075,000
Revenue from Bell Jet Rangers	120,771	69,397	53,360	10,000	95,000	95,000
Revenue from Cessna 180 Series	94,264	51,462	54,112	50,000	78,750	78,750
Net Fee Revenue	618,585	339,171	605,580	660,000	1,248,750	1,248,750
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	412	319	593	-	-	-
Total Operating Revenue	618,997	339,490	606,173	660,000	1,248,750	1,248,750
Operating Expenses:						
Personal Services	365,116	413,440	664,484	714,824	794,574	797,767
Other Operating Expenses	748,434	523,952	876,110	783,894	885,150	899,506
Total Operating Expenses	1,113,550	937,392	1,540,594	1,498,718	1,679,724	1,697,273
Operating Income (Loss)	(494,553)	(597,902)	(934,421)	(838,718)	(430,974)	(448,523)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(523)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(523)	-	-	-	-
Income (Loss) Before Operating Transfers	(494,553)	(598,425)	(934,421)	(838,718)	(430,974)	(448,523)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	436,118	585,705	1,009,421	1,000,000	824,421	825,921
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(58,435)	(12,720)	75,000	161,282	393,447	377,398
Total Net Assets- July 1 - As Restated	157,460	99,025	86,305	175,089	336,371	729,818
Prior Period Adjustments	-	-	13,784	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	157,460	99,025	100,089	175,089	336,371	729,818
Net Assets- June 30	99,025	86,305	175,089	336,371	729,818	1,107,216
60 days of expenses (Total Operating Expenses divided by 6)	185,592	156,232	256,766	249,786	279,954	282,879
Requested Rates for Internal Service Funds						
Fee/Rate Information for Legislative Action						
	Actual FYE 04	Actual FY 05	Actual FY 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Fee Group A						
Bell UH-1H Helicopter	875.00	875.00	875.00	875.00	1,075.00	1,075.00
Bell Jet Ranger Helicopter	355.00	355.00	355.00	355.00	475.00	475.00
Cessna 180 Fixed Wing	95.00	95.00	95.00	95.00	150.00	150.00

2009 Biennium Report on Internal Service and Enterprise Funds

2009 Biennium Report on Internal Service and Enterprise Funds								
Fund 06003	Fund Name State Nursery Enterprise Fund	Agency # 57060	Agency Name Department of Natural Resources and Communities	Program Name Forestry/Trust Lands Division				
			Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:								
Fee revenue								
Subsequent Injury Fund Assessment			-	-	-	-	-	-
Revenue from Nursery Sales			-	-	379,623	467,053	437,000	478,500
Revenue from Nursery Services			-	-	2,200	33,600	25,000	27,500
Net Fee Revenue			-	-	381,823	500,653	462,000	506,000
Investment Earnings			-	-	-	-	-	-
Securities Lending Income			-	-	-	-	-	-
Premiums			-	-	-	-	-	-
Other Operating Revenues			-	-	29	-	-	-
Total Operating Revenue			-	-	381,852	500,653	462,000	506,000
Operating Expenses:								
Personal Services			-	-	294,586	360,576	360,265	361,415
Other Operating Expenses			-	-	99,521	127,096	101,024	101,233
Total Operating Expenses			-	-	394,107	487,672	461,289	462,648
Operating Income (Loss)			-	-	(12,255)	12,981	711	43,352
Nonoperating Revenues (Expenses):								
Gain (Loss) Sale of Fixed Assets			-	-	-	-	-	-
Federal Indirect Cost Recoveries			-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)			-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)			-	-	-	-	-	-
Income (Loss) Before Operating Transfers			-	-	(12,255)	12,981	711	43,352
Contributed Capital			-	-	7,119	-	-	-
Operating Transfers In (Note 13)			-	-	17,190	-	-	-
Operating Transfers Out (Note 13)			-	-	(25,080)	-	-	-
Change in net assets			-	-	(13,026)	12,981	711	43,352
Total Net Assets- July 1 - As Restated			-	-	45	(12,981)	(0)	711
Prior Period Adjustments			-	-	-	-	-	-
Cumulative effect of account change			-	-	-	-	-	-
Total Net Assets - July 1 - As Restated			-	-	45	(12,981)	(0)	711
Net Assets- June 30			-	-	(12,981)	(0)	711	44,063
60 days of expenses								
(Total Operating Expenses divided by 6)			-	-	65,684	81,279	76,882	77,108
Requested Rates for Internal Service Funds								
Fee/Rate Information for Legislative Action								
			Actual FYE 04	Actual FY 05	Actual FY 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Revenue from Nursery Sales					VARIES*	VARIES*	VARIES*	VARIES*
Revenue from Nursery Services					VARIES*	VARIES*	VARIES*	VARIES*
*Rate Explanation:								
The price of each seedling type is set at the end of the previous fiscal year. Prices are based on the actual production costs for each seedling type. The variables involved in seedling production include seedling stock type (bareroot vs. container), seed cost, propagation difficulty, cull rates, seedling age class, quantity produced, equipment costs, labor costs, and overhead charges. Given these variables, each of the 125-plus seedling types can have a different price, and the price must be adjusted annually to account for changes in fixed and variable costs.								

Agency Proposed Budget

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	112.54	2.50	2.50	117.54	3.50	2.50	118.54	118.54
Personal Services	4,232,051	1,152,701	121,499	5,506,251	1,223,916	121,745	5,577,712	11,083,963
Operating Expenses	2,847,908	738,304	55,216	3,641,428	554,176	55,336	3,457,420	7,098,848
Equipment	224,525	351,500	50,000	626,025	2,500	0	227,025	853,050
Grants	4,184,119	85,000	0	4,269,119	807,962	0	4,992,081	9,261,200
Transfers	0	0	5,000,000	5,000,000	0	0	0	5,000,000
Debt Service	2,282	0	0	2,282	0	0	2,282	4,564
Total Costs	\$11,490,885	\$2,327,505	\$5,226,715	\$19,045,105	\$2,588,554	\$177,081	\$14,256,520	\$33,301,625
General Fund	578,626	75,839	5,226,715	5,881,180	41,183	177,081	796,890	6,678,070
State/Other Special	8,683,632	1,751,754	0	10,435,386	1,760,126	0	10,443,758	20,879,144
Federal Special	1,911,040	262,008	0	2,173,048	636,174	0	2,547,214	4,720,262
Proprietary	317,587	237,904	0	555,491	151,071	0	468,658	1,024,149
Total Funds	\$11,490,885	\$2,327,505	\$5,226,715	\$19,045,105	\$2,588,554	\$177,081	\$14,256,520	\$33,301,625

Agency Description

The Department of Agriculture, required by Article XII, Section 1, of the Montana Constitution, was established to encourage and promote the interests of agricultural and allied industries in Montana. To this end, the department:

- Strengthens and diversifies the Montana agriculture industry through private-public partnerships
- Collects and publishes agricultural production and marketing statistics relating to agricultural products
- Assists, encourages, and promotes the organization of farmers institutes, agricultural societies, fairs, and other exhibition of agriculture
- Adopts standards for grade and other classifications of farm products
- Coordinates the planning and maintenance of economical and efficient marketing distribution systems
- Gathers and distributes marketing information concerning supply, demand, price, and movement of farm products
- Regulates production and marketing of food and fiber products
- Registers pesticides and fertilizers and enforces laws pertaining to them

Agency Highlights

Department of Agriculture Major Budget Highlights	
◆	The executive proposes a one-time-only \$5.0 million general fund transfer to the noxious weed trust fund to bring the principal of the fund to nearly \$10 million
◆	The executive restores and increases one-time-only funding from the 2007 biennium for Bovine Spongiform Encephalopathy (BSE) livestock feed inspections and testing , \$0.4 million
◆	Statewide present law adjustments totaling \$2.1 million for personal services, and \$0.08 million for inflation and fixed cost increases.

Major LFD Issues
<ul style="list-style-type: none"> ♦ Funding allocation of Centralized Management Division is not applied equally across fund types ♦ The goals and performance measures of the BSE and noxious weed trust fund proposals describe staff activities rather than the policy driving the request

Agency Discussion*Goals and Objectives:*

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- o Goals, objectives and year-to-date outcomes from the 2007 biennium
- o Goals and objectives and their correlation to the 2009 biennium budget request

Any issues related to goals and objectives raised by LFD staff are located in the program section.

Statutory Appropriation

Several programs in the department are funded with statutory appropriations. These appropriations are in statute, and consequently are not included in HB 2. Figure 1 presents the statutory reference for each appropriation, what the appropriation is for, and the actual and projected expenditures for the current and upcoming biennia.

Figure 1
Department of Agriculture
Statutory Appropriations
FY 2006 - 2009

Program	MCA Reference	Description	Fund Source	FTE Fiscal 2006	FTE Fiscal 2009	FY 2006 Base	FY 2008 Executive Budget	FY 2009 Executive Budget
Centralized Services	80-11-518	Commodity Research & Marketing	State Special			\$2,193	\$8,340	\$8,340
Ag Sciences Division	80-5-510	Ag Seed Mediation	State Special			-	3,900	3,900
Ag Sciences Division	80-4-416	Grain Liquidation	State Special			-	30,000	30,000
Ag Development Division	80-11-518	Commodity Research & Marketing	State Special			85,457	294,953	294,953
Ag Development Division	90-9-306	Growth Thru Ag Seed Capital	State Special			50,000	192,292	237,658
Ag Development Division	15-35-108	Vision 2005	General Fund	5.00	5.00	1,248,176	1,250,000	1,250,000
Ag Development Division	15-35-108	Montana Cooperative Dev Center	General Fund			65,000	65,000	65,000
GRAND TOTAL				5.00	5.00	<u>\$1,450,826</u>	<u>\$1,844,485</u>	<u>\$1,889,851</u>
Total General Fund						\$1,313,176	\$1,315,000	\$1,315,000
Total State Special						<u>137,650</u>	<u>529,485</u>	<u>574,851</u>
GRAND TOTAL						<u>\$1,450,826</u>	<u>\$1,844,485</u>	<u>\$1,889,851</u>

2007 Biennium New Initiative Update

The 2005 Legislature funded a one-time-only initiative for Bovine Spongiform Encephalopathy (BSE) livestock feed inspections and testing. The 2.50 FTE authorized in this initiative have been hired and the analytical lab equipment has been purchased and is in use. New Food and Drug Administration requirements may require additional equipment. The Governor recommends permanent funding for this initiative effective in the 2009 biennium.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2009 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
15 Centralized Services Division	\$ 345,369	\$ 1,523,825	\$ 208,000	\$ 2,077,194	6.44%
30 Agricultural Sciences Division	5,606,478	12,102,111	4,462,262	22,170,851	68.69%
50 Agricultural Development Division	726,223	7,253,208	50,000	8,029,431	24.88%
Grand Total	6,678,070	20,879,144	4,720,262	32,277,476	100.00%

The Department of Agriculture is funded from general fund, state special revenue, federal special revenue, and proprietary funds. Proprietary funds are excluded from the above agency proposed budget table and HB 2. However, proprietary funds are presented and discussed in the budget analysis in the various programs in the department that use proprietary funds. Also excluded from the agency proposed budget table and HB 2 are statutory appropriations for the several programs administered by the department. See Figure 1 in the Agency Discussion section at the beginning of the agency narrative for a summary of statutory appropriations for the current and upcoming biennia.

The Governor proposes adding new programs to the department in the 2009 biennium, as well as restoring several programs that were funded with one-time-only appropriations by the 2005 Legislature. Per state statute, one-time-only appropriations are excluded from the base expenditures for biennial budget projections.

The Governor funds the new and restored programs with general fund. A portion of the statewide present law adjustments would also be funded with general fund. General fund would increase \$5.2 million, 477 percent, from the doubled FY 2006 base in the 2009 biennium. Proposals include:

25. Bovine Spongiform Encephalopathy (BSE) -- \$0.4 million to continue the one-time-only funding approved by the 2005 Legislature; and
26. Noxious Weed Trust Fund -- \$5.0 million to add to the trust, bringing the trust principal to nearly \$10 million which would result in more income available for weed management programs.

State special revenue would increase \$3.5 million, 20 percent, from the doubled FY 2006 base in the 2009 biennium for present law adjustments recommended by the Governor and for statewide present law adjustments. Federal special revenue would increase \$0.9 million, or 23 percent from the doubled FY 2006 base in the 2009 biennium for present law adjustments recommended by the Governor and for statewide present law adjustments.

Biennium Budget Comparison

The following table compares the executive budget request in the 2009 biennium with the 2007 biennium by type of expenditure and source of funding. The 2007 biennium consists of actual FY 2006 expenditures and FY 2007 appropriations.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	Present Law Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Biennium Fiscal 06-07	Total Exec. Budget Fiscal 08-09
FTE	115.04	2.50	117.54	116.04	2.50	118.54	112.54	118.54
Personal Services	5,384,752	121,499	5,506,251	5,455,967	121,745	5,577,712	9,445,400	11,083,963
Operating Expenses	3,586,212	55,216	3,641,428	3,402,084	55,336	3,457,420	5,439,074	7,098,848
Equipment	576,025	50,000	626,025	227,025	0	227,025	485,178	853,050
Grants	4,269,119	0	4,269,119	4,992,081	0	4,992,081	10,573,610	9,261,200
Transfers	0	5,000,000	5,000,000	0	0	0	0	5,000,000
Debt Service	2,282	0	2,282	2,282	0	2,282	4,582	4,564
Total Costs	\$13,818,390	\$5,226,715	\$19,045,105	\$14,079,439	\$177,081	\$14,256,520	\$25,947,844	\$33,301,625
General Fund	654,465	5,226,715	5,881,180	619,809	177,081	796,890	1,179,033	6,678,070
State/Other Special	10,435,386	0	10,435,386	10,443,758	0	10,443,758	18,420,310	20,879,144
Federal Special	2,173,048	0	2,173,048	2,547,214	0	2,547,214	5,634,285	4,720,262
Proprietary	555,491	0	555,491	468,658	0	468,658	714,216	1,024,149
Total Funds	\$13,818,390	\$5,226,715	\$19,045,105	\$14,079,439	\$177,081	\$14,256,520	\$25,947,844	\$33,301,625

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	Fiscal 2008				Fiscal 2009				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 3002 - Bovine Spongiform Encephalopathy (BSE)										
30	2.50	226,715	0	0	226,715	2.50	177,081	0	0	177,081
DP 3003 - Noxious Weed Trust Fund OTO										
30	0.00	5,000,000	0	0	5,000,000	0.00	0	0	0	0
Total	2.50	\$5,226,715	\$0	\$0	\$5,226,715	2.50	\$177,081	\$0	\$0	\$177,081

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	14.00	1.00	0.00	15.00	1.00	0.00	15.00	15.00
Personal Services	658,647	169,689	0	828,336	172,444	0	831,091	1,659,427
Operating Expenses	250,602	99,779	0	350,381	(14,638)	0	235,964	586,345
Equipment	0	18,000	0	18,000	0	0	0	18,000
Total Costs	\$909,249	\$287,468	\$0	\$1,196,717	\$157,806	\$0	\$1,067,055	\$2,263,772
General Fund	144,463	46,364	0	190,827	10,079	0	154,542	345,369
State/Other Special	612,439	193,287	0	805,726	105,660	0	718,099	1,523,825
Federal Special	89,998	23,002	0	113,000	5,002	0	95,000	208,000
Proprietary	62,349	24,815	0	87,164	37,065	0	99,414	186,578
Total Funds	\$909,249	\$287,468	\$0	\$1,196,717	\$157,806	\$0	\$1,067,055	\$2,263,772

Program Description

The Central Services Division (CSD) performs technical, fiscal, and administrative support functions for the department's internal operations and related programs. Responsibilities include accounting, budgeting, payroll, human resources, purchasing, property control, data processing, systems analysis and computer programming, equal opportunity administration, public information, and legal support to all programs within the department. Included in this division is the Director's office, which provides overall policy development for the department.

Program Highlights

Central Management Division Major Budget Highlights	
♦	The Governor recommends additional funds to develop E-government information technology services
♦	All other changes are for statewide and present law adjustments
Major LFD Issues	
♦	Funding allocation of Centralized Management Division is not applied equally across fund types
♦	The legislative audit costs are not allocated to all department funds

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding Table Centralized Services Div							
Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000	Total General Fund	\$ 144,463	15.9%	\$ 190,827	15.9%	\$ 154,542	14.5%
	01100 General Fund	144,463	15.9%	190,827	15.9%	154,542	14.5%
02000	Total State Special Funds	612,439	67.4%	805,726	67.3%	718,099	67.3%
	02040 Wheat & Barley Research & Mktg	119,964	13.2%	77,029	6.4%	77,029	7.2%
	02068 Noxious Weed Admin Account	77,467	8.5%	106,144	8.9%	101,894	9.5%
	02071 Anhydrous Ammonia Account	879	0.1%	3,576	0.3%	3,576	0.3%
	02192 Pesticide Groundwater Account	109,766	12.1%	190,859	15.9%	137,482	12.9%
	02193 Pesticide Account	116,026	12.8%	154,000	12.9%	124,000	11.6%
	02198 Fert. Groundwater Account	3,231	0.4%	3,671	0.3%	3,671	0.3%
	02264 Organic Certification	-	-	18,981	1.6%	18,981	1.8%
	02265 Fsi Produce	25,467	2.8%	25,404	2.1%	25,404	2.4%
	02266 Commodity Dealer/Warehouse	8,055	0.9%	9,690	0.8%	9,690	0.9%
	02267 Nursery Account	15,726	1.7%	18,487	1.5%	18,487	1.7%
	02268 Produce Account	73,285	8.1%	46,153	3.9%	46,153	4.3%
	02269 Seed Account	10,194	1.1%	7,930	0.7%	7,930	0.7%
	02452 Commercial Fertilizer	18,709	2.1%	28,860	2.4%	28,860	2.7%
	02453 Grain Services	-	-	66,559	5.6%	66,559	6.2%
	02454 Commercial Feed	26,587	2.9%	42,722	3.6%	42,722	4.0%
	02792 Apiary Account	7,083	0.8%	5,661	0.5%	5,661	0.5%
03000	Total Federal Special Funds	89,998	9.9%	113,000	9.4%	95,000	8.9%
	03120 Agriculture Cmd Federal	89,998	9.9%	113,000	9.4%	95,000	8.9%
06000	Total Proprietary Funds	62,349	6.9%	87,164	7.3%	99,414	9.3%
	06052 Hail Insurance	62,349	6.9%	87,164	7.3%	99,414	9.3%
Grand	Total	\$ 909,249	100.0%	\$ 1,196,717	100.0%	\$ 1,067,055	100.0%

The CSD is funded from an indirect cost reimbursement from federal grants administered by the agency, from an administrative assessment charged to and from the state general fund. State general fund is used to account for any difference between the assessed amounts on the two line divisions of the agency (Agricultural Sciences and Agricultural Development Divisions) and the budgeted amount for the CSD. General fund is used to pay primarily for operating costs, not personal services, in the division.

LFD ISSUE

General Fund Comprises Large Share of Total Cost

The CSD performs the "overhead" functions of the agency, as noted in the program description section of this narrative. The division exists to support the business functions of the agency and therefore should be supported entirely by charges against the same funding sources that support the other two divisions. Currently, the general fund supporting the CSD is disproportionate compared to the average of the two other divisions in the agency. Figure 2 compares the present law funding for the other divisions of the department to the present law funding for the CSD in the 2009 biennium. The table also shows what the impact would be if funding were changed to fully account for the other funding sources.

Figure 2
Funding Sources and Alternate Calculation
Centralized Services Division
2009 Biennium

Funding Source	---2009 Biennium Present Law Executive Budget---				---Adjusted Percentage Calculation---		
	Agricultural Sciences/Develop	Percent of Total	Centralized Services	Percent of Total	Centralized Services	Percent of Total	Difference
General Fund	\$928,405	4.0%	\$345,369	15.3%	\$90,570	4.0%	(\$254,799)
State Special	18,408,715	75.0%	1,524,298	67.3%	1,698,184	75.0%	173,886
Federal Special	4,482,913	18.0%	208,000	9.2%	407,564	18.0%	199,564
Proprietary	837,571	3.0%	186,578	8.2%	67,927	3.0%	(118,651)
Total	\$24,657,604	100.0%	\$2,264,245	100.0%	\$2,264,245	100.0%	\$0

**LFD
ISSUE (CONT.)**

As shown on the table, the general fund comprises a larger portion of the CSD than the average of the two other divisions. If general fund was budgeted in the CSD at the same funding ratio as the other two divisions, general fund would be reduced over \$250,000 in the 2009 biennium. Non-general fund would be reduced in other divisions and allocated to the CSD.

- Option A – Fund the CSD with general fund at the average funding ratio as the other two divisions in the department.
Option B – Maintain the executive budget funding recommendation.

**LFD
ISSUE****Proprietary Fund**

CSD could move to a proprietary fund mechanism to charge the two functional divisions for services. This mechanism would translate into a more direct economic/business model and may reduce general fund expenditures. The other divisions would be charged a legislatively-approved uniform rate of sufficient amount to fund the operations of this division and would make this payment with the funds used to support the division. In this way, the funding sources would be equitably assessed.

- Option A – Direct the CSD to move to a proprietary model for accounting for its departmental overhead activity.
Option B – Maintain the current funding methodology.

**LFD
ISSUE****Audit Costs**

The department charges 100 percent of its legislative audit costs to the general fund, even though the general fund comprises only five percent of total HB 2 base funding. Other state agencies with multiple funding sources allocate legislative audit costs to all funds. In addition, state law requires the expenditure of nongeneral fund money whenever possible before using general fund (17-2-108, MCA).

Total legislative audit costs projected for the 2009 biennium for this agency are \$41,124. Allocating 95 percent of this cost to nongeneral fund sources would reduce the general fund obligation by \$39,068, have minimal impact on the agency's other funding sources, and comply with state law.

- Option – Fund audit costs with five percent general fund and 95 percent other funds.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
Fiscal 2008					Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				154,090					156,876
Vacancy Savings				(32,508)					(32,622)
Inflation/Deflation				654					772
Fixed Costs				2,338					(34,470)
Total Statewide Present Law Adjustments				\$124,574					\$90,556
DP 1501 - Program 15 Base Budget Adjustments									
0.00	0	0	5,000	5,000	0.00	0	0	5,000	5,000
DP 1502 - E-Government IT-OTO									
1.00	51,894	87,250	18,000	157,894 *	1.00	49,250	0	0	62,250 *
Total Other Present Law Adjustments									
1.00	\$51,894	\$87,250	\$23,000	\$162,894 *	1.00	\$49,250	\$0	\$5,000	\$67,250 *
Grand Total All Present Law Adjustments				\$287,468 *					\$157,806 *

**LFD
COMMENT**

The statewide present law personal services adjustment includes the implementation and annualization of the FY 2007 pay plan approved by the 2005 Legislature (\$55,000), funds for a 1.0 FTE position transferred to this division from the Agriculture Development Division in FY 2006 but not filled until FY 2007 (\$41,000), and restoration of salaries and benefits for vacancy savings realized in FY 2006 (\$56,000).

DP 1501 - Program 15 Base Budget Adjustments - This executive budget includes \$10,000 federal special revenue for the 2009 biennium for two foreign agricultural trips within the director's office and in-house staff development and training.

DP 1502 - E-Government IT-OTO - The executive budget recommends: 1) a one-time-only appropriation of \$220,144 in the 2009 biennium, funded from general fund, special revenue funds, and proprietary funds, for a network administrator (1.0 FTE) to coordinate agency network services; 2) for the continued development of Internet-based online registration programs for pesticide, fertilizer and feed products, for training and agricultural events, and for hail insurance; and 3) the implementation of cluster servers to support business continuity. These services are in accordance with the Montana Information Technology Act, the Montana State Strategic Information Technology Plan, and the approved agency information technology plan.

**LFD
COMMENT**

This decision package is funded with one-time-only funds. However, a portion of the funding (\$96,297 general fund) is for the network administrator position. Continued funding for this position will likely be requested in the 2009 Legislative Session.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	60.17	1.50	2.50	64.17	2.50	2.50	65.17	65.17
Personal Services	2,469,589	540,241	121,499	3,131,329	603,875	121,745	3,195,209	6,326,538
Operating Expenses	1,049,480	362,760	55,216	1,467,456	393,951	55,336	1,498,767	2,966,223
Equipment	163,434	333,500	50,000	546,934	2,500	0	165,934	712,868
Grants	3,158,848	60,000	0	3,218,848	782,962	0	3,941,810	7,160,658
Transfers	0	0	5,000,000	5,000,000	0	0	0	5,000,000
Debt Service	2,282	0	0	2,282	0	0	2,282	4,564
Total Costs	\$6,843,633	\$1,296,501	\$5,226,715	\$13,366,849	\$1,783,288	\$177,081	\$8,804,002	\$22,170,851
General Fund	101,341	0	5,226,715	5,328,056	0	177,081	278,422	5,606,478
State/Other Special	4,927,387	1,076,358	0	6,003,745	1,170,979	0	6,098,366	12,102,111
Federal Special	1,814,905	220,143	0	2,035,048	612,309	0	2,427,214	4,462,262
Proprietary	0	0	0	0	0	0	0	0
Total Funds	\$6,843,633	\$1,296,501	\$5,226,715	\$13,366,849	\$1,783,288	\$177,081	\$8,804,002	\$22,170,851

Program Description

The Agricultural Sciences Division (ASD) administers, manages, coordinates, and evaluates the major activities of: 1) pesticide and pest management; 2) analytical laboratory services; 3) noxious weed management; 4) agricultural chemical groundwater program; 5) feed and fertilizer program; 6) organic certification; and 7) commodity programs. Duties also include administering agricultural programs related to the production, manufacturing, and marketing of commodities exported from or distributed in the state. The program provides support to the Montana Noxious Weed Management Advisory Council, Noxious Weed Seed Forage Advisory Council, Montana Noxious Weed Summit Advisory Council, Montana Organic Commodity Advisory Committee, Montana Mint Committee, and the Cooperative Agricultural Pest Survey Advisory Council.

Program Highlights

Agricultural Sciences Division	
Major Budget Highlights	
♦	The executive proposes a one-time-only \$5.2 million general fund transfer to the noxious weed trust fund to bring the principal of the fund to \$10 million in order to increase moneys available for grants to county and other weed districts, research, and education.
♦	The executive restores and increases one-time-only funding from the 2007 biennium for Bovine Spongiform Encephalopathy (BSE) livestock feed inspections and testing, \$0.4 million
♦	The executive recommends adding 1.50 FTE to address present law workload increases for cherry inspections and assistance to private pesticide applicators
Major LFD Issues	
♦	The goals and performance measures of the BSE and noxious weed trust fund proposals describe staff activities rather than the policy driving the request

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding Table Agricultural Sciences Di						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 101,341	1.5%	\$ 5,328,056	39.9%	\$ 278,422	3.2%
01100 General Fund	101,341	1.5%	5,328,056	39.9%	278,422	3.2%
02000 Total State Special Funds	4,927,387	72.0%	6,003,745	44.9%	6,098,366	69.3%
02037 Mint Committee	13,847	0.2%	14,279	0.1%	14,274	0.2%
02068 Noxious Weed Admin Account	2,118,662	31.0%	2,150,637	16.1%	2,560,360	29.1%
02071 Anhydrous Ammonia Account	22,117	0.3%	26,240	0.2%	26,323	0.3%
02072 Manuals & Training Account	17,741	0.3%	23,836	0.2%	23,833	0.3%
02192 Pesticide Groundwater Account	664,606	9.7%	1,117,636	8.4%	900,852	10.2%
02193 Pesticide Account	709,806	10.4%	1,041,669	7.8%	944,974	10.7%
02198 Fert. Groundwater Account	18,893	0.3%	20,498	0.2%	20,705	0.2%
02264 Organic Certification	114,820	1.7%	137,276	1.0%	137,697	1.6%
02265 Fsi Produce	175,817	2.6%	218,848	1.6%	218,931	2.5%
02266 Commodity Dealer/Warehouse	61,020	0.9%	70,305	0.5%	70,956	0.8%
02267 Nursery Account	95,282	1.4%	101,598	0.8%	101,427	1.2%
02268 Produce Account	395,756	5.8%	346,796	2.6%	348,527	4.0%
02269 Seed Account	48,458	0.7%	49,402	0.4%	49,605	0.6%
02341 Weed Seed Free Forage Account	23,733	0.3%	26,024	0.2%	26,024	0.3%
02452 Commercial Fertilizer	184,232	2.7%	259,482	1.9%	261,368	3.0%
02454 Commercial Feed	207,425	3.0%	343,399	2.6%	335,473	3.8%
02792 Apiary Account	55,172	0.8%	55,820	0.4%	57,037	0.6%
03000 Total Federal Special Funds	1,814,905	26.5%	2,035,048	15.2%	2,427,214	27.6%
03118 Agriculture Asd Federal	1,814,905	26.5%	2,035,048	15.2%	2,427,214	27.6%
Grand Total	<u>\$ 6,843,633</u>	<u>100.0%</u>	<u>\$ 13,366,849</u>	<u>100.0%</u>	<u>\$ 8,804,002</u>	<u>100.0%</u>

The base amount of general fund, \$101,341 per year, is used to mitigate the impact of noxious weeds on lands other than through the Department of Fish, Wildlife, and Parks. In addition, the Governor recommends a significant general fund increase for two programs: 1) \$403,796 and 2.50 FTE to permanently fund the BSE livestock feed inspections and testing one-time-only initiative from the 2005 Legislature; and 2) \$5.0 million to increase the principal of the noxious weed trust fund to nearly its constitutional \$10 million limit.

State special revenue, the largest funding source for this division, is primarily fees assessed for regulatory activities and technical services. Figure 3 presented later in this narrative lists the various state special revenue funds supporting the activities of this division.

Federal special revenue includes funds from the US Forest Service, US Department of Agriculture, and the Environmental Protection Agency. Federal funds support noxious weed mitigation, portions of the BSE inspections, portions of the pesticide and groundwater programs, and pest detection.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2008-----						-----Fiscal 2009-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				589,512					605,301	
Vacancy Savings				(122,368)					(122,999)	
Inflation/Deflation				6,788					7,814	
Fixed Costs				25,659					27,802	
Total Statewide Present Law Adjustments				\$499,591					\$517,918	
DP 3001 - Program 30 Base Budget Adjustments										
0.00	0	179,926	219,625	399,551	0.00	0	147,450	609,625	757,075	
DP 3004 - Commodity Bureau										
0.50	0	38,819	0	38,819	0.50	0	38,850	0	38,850	
DP 3005 - Pesticide Program										
1.00	0	58,540	0	58,540	1.00	0	60,309	0	60,309	
DP 3010 - Noxious Weed Trust Fund Grants Increase										
0.00	0	0	0	0	1.00	0	409,136	0	409,136	
DP 3011 - Bozeman Lab Equipment OTO/Biennial										
0.00	0	300,000	0	300,000	0.00	0	0	0	0	
Total Other Present Law Adjustments										
1.50	\$0	\$577,285	\$219,625	\$796,910	2.50	\$0	\$655,745	\$609,625	\$1,265,370	
Grand Total All Present Law Adjustments				\$1,296,501					\$1,783,288	

**LFD
COMMENT**

The statewide present law personal services adjustment includes the implementation and annualization of the FY 2007 pay plan approved by the 2005 Legislature (\$239,000), funds a 0.5 FTE position added in FY 2007 approved by the 2005 Legislature (\$17,600), and restores salaries and benefits for vacancy savings realized in FY 2006 (\$269,000).

DP 3001 - Program 30 Base Budget Adjustments - This executive budget includes \$1,156,626 for the 2009 biennium to increase base year expenditures from state special (SSR) and federal special funds for programs within the division as follows:

1. Anhydrous Ammonia fund (SSR) – a \$3,000 increase for anticipated increases in field office rent, vehicle maintenance, and registration fees for meetings;
2. Manuals and Training fund (SSR) – a \$12,000 increase for training manual development contracts;
3. Groundwater program (SSR) – a \$55,700 increase for the purchase of a four wheel drive pickup and increased field office rent, travel, and for support and contract services for the Laboratory Bureau in Bozeman;
4. Pesticide program (SSR) – a \$113,500 increase for support and service contracts for the Laboratory Bureau, and the pesticide disposal contract;
5. Federal State Inspection Potato program (SSR) – a \$14,936 increase for travel, overtime, and office rent;
6. Nursery program (SSR) – a \$8,000 increase for the Department of Revenue One-Stop contract, supplies, communication, and travel;
7. Feed and Fertilizer programs (SSR) – a \$52,600 increase for support and service contracts, laboratory supplies, lab equipment, and travel for the Laboratory Bureau;
8. Apiary program (SSR) – a \$6,000 increase for program activities;
9. Commodity dealer/warehouse fund (SSR) – a \$5,000 increase to contribute towards purchase of a vehicle;
10. Noxious weed seed forage (SSR) – a \$4,000 increase for supplies;
11. Mint, Noxious Weed Seed Free Forage, Montana Noxious Weed Summit Advisory, Montana Organic Commodity Advisory funds (SSR) – a \$52,540 increase for increased per diem and travel expenditures; and
12. Federal funds – a \$829,250 increase for federal discretionary grants that may become available in the 2009 biennium, and increased costs for contracts, travel, lab equipment and database improvements.

**LFD
COMMENT**

Figure 3 summarizes the requested base adjustments by fund for the 2009 biennium.

Figure 3			
Summary of Expenditures and Funding for DP 3001			
Agricultural Sciences Division - 2009 Biennium Executive Budget			
Category	FY 2008	FY 2009	Biennium
<u>Expenditures</u>			
61200 Hourly Wages	\$3,000	\$3,000	\$6,000
61300 Other Compensation	2,025	2,025	4,050
62100 Other Services	176,956	176,980	353,936
62200 Supplies & Materials	62,200	60,700	122,900
62300 Communications	813	813	1,626
62400 Travel	15,442	15,281	30,723
62500 Rent	17,820	17,981	35,801
62700 Repair & Maintenance	24,450	24,450	48,900
62800 Other Expenses	3,345	3,345	6,690
63100 Equipment	33,500	2,500	36,000
66100 From State Sources	0	450,000	450,000
66200 From Federal Sources	60,000	0	60,000
Total Expenditures	<u>\$399,551</u>	<u>\$757,075</u>	<u>\$1,156,626</u>
<u>Fund</u>			
02037 Mint Committee	\$350	\$350	\$700
02068 Noxious Weed Admin Account	24,020	24,020	48,040
02071 Anhydrous Ammonia Account	1,500	1,500	3,000
02072 Manuals & Training Account	6,000	6,000	12,000
02192 Pesticide Groundwater Account	38,350	17,350	55,700
02193 Pesticide Account	57,500	56,000	113,500
02264 Organic Certification	1,950	1,950	3,900
02265 Fsi Produce	7,456	7,480	14,936
02266 Commodity Dealer/Warehouse	2,500	2,500	5,000
02267 Nursery Account	4,000	4,000	8,000
02341 Weed Seed Free Forage Account	2,000	2,000	4,000
02452 Commercial Fertilizer	7,500	7,500	15,000
02454 Commercial Feed	23,800	13,800	37,600
02792 Apiary Account	3,000	3,000	6,000
03118 Agriculture Asd Federal	<u>219,625</u>	<u>609,625</u>	<u>829,250</u>
Total Funds	<u>\$399,551</u>	<u>\$757,075</u>	<u>\$1,156,626</u>

DP 3004 - Commodity Bureau - The executive budget recommends an additional \$77,669 in state special authority from in the 2009 biennium to hire 0.5 FTE part-time seasonal inspectors in the Commodity Bureau to cover cherry inspections requested by cherry growers. One-half (0.50) FTE is requested for hiring part-time seasonal inspectors to cover cherry inspections. Since 2005, inspection services have been made and provided by existing ASD staff.

**LFD
COMMENT**

The department does not separately track license or assessment fee revenue by produce type. Consequently it is not possible to determine the portion of the cost of the cherry inspections that would be paid by cherry growers.

DP 3005 - Pesticide Program - The executive budget includes \$118,849 additional state special authority in the 2009 biennium to provide the pesticide program with an additional 1.00 FTE agricultural specialist to provide ongoing assistance to private pesticide applicators. The ASD provides licensing, training, compliance assistance, and enforcement inspections for licensing pesticide applicators and dealers in Montana. One FTE is requested to staff a permanent, full-time agricultural specialist in Helena that would provide assistance to private applicators in complying with worker protection regulations, restricted use recordkeeping requirements, pesticide disposal, pesticide application methods, pesticide safety practices, and assistance to the Montana state university extension service in private applicator certification and training.

DP 3010 - Noxious Weed Trust Fund Grants Increase - This request increases state special authority by \$409,136 with the addition of 1.00 FTE in fiscal year 2009 to assist in managing and monitoring an expected increase in the number of grant projects and the anticipated increase in program costs due to the one-time-only general fund transfer in HB XXX.

The Montana Noxious Weed Trust Fund (NWTF) grant program was established by the 1985 Montana Legislature to provide funding for development and implementation of weed management programs in Montana. The Montana Noxious Weed Trust Fund Act is a grant-funding program designed to encourage local cooperative weed management programs, creative research in weed control including the development of biological control methods, and educational programs (80-7-801 through 821, MCA). This request is for \$409,136 in state special fund (02068) appropriation for the increased program costs (80-7-814(5)(d), MCA) that will occur.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The 2005 Montana Weed Management Plan includes an action item to increase the principal of the noxious weed trust fund to \$10 million by the year 2010. The Montana Department of Agriculture (MDA) is therefore proposing an increase in the noxious weed trust fund principle to \$10 million which is the maximum amount permitted under 80-7-811, MCA.

Goal: Increasing the noxious weed trust fund principle to \$10 million will approximately double the interest income that the trust fund provides for weed management. This will allow the department to issue additional grants to county weed districts, local governments, Indian Reservations, and researchers for development of community cooperative weed management programs and new and innovative noxious weed management, education or research projects to improve weed control in Montana.

Performance Criteria: Increased number of grant projects approved in FY 2009.

Milestones:

- o One time transfer from the general fund to the noxious weed trust fund on 7/1/2007.
- o Additional grant dollars available for funding grant proposals on 7/1/2008.

FTE: The department is proposing the addition of 1.00 FTE. The FTE will assist in managing and monitoring an expected increase in the number of grant projects approved because of increase funding that will be available for funding weed management projects. The new FTE would be hired in FY 2009 because revenue from the trust fund, including the anticipated increase in revenue in FY 2008, is not transferred to the department until the end of the fiscal year.

Funding: Interest generated from the noxious weed trust fund (09034) is transferred annually to the state special fund (02068) per 80-7-816, MCA. The interest varies from year to year, reducing or increasing the amount of funds available to fund the weed grant program.

Obstacles:

- o Approval of transfer.

Risk: The Montana Weed Plan estimates \$47 million per year is needed to reduce noxious weed infestations by five percent per year. Building the trust fund to \$10 million would double the investment income generated for sustainable, on the ground weed management in Montana contributing to the funding needed for weed management. For the FY 2007 noxious weed trust fund grant cycle, the department received eighty-seven applications and partially funded seventy-eight. The council had \$2.1 million to award and the total amount requested from the applicants totaled \$3.9 million. If this proposal is not adopted, the Governor's appointed Montana Noxious Weed Summit Advisory Council, the Montana Weed Control Association, and other interested parties will continue to look for funding sources. The funding of the noxious weed trust fund is a priority for many people. A 75 percent majority of Montanans passed a constitutional amendment (CA 40) to protect the fund from legislative uses other than those intended, unless

appropriated by a three-fourth majority of both Houses. The unanimous passage of HB 0266 (2005 Legislature) to clarify the distribution of funds to the noxious weed management special revenue fund reinforces the importance of weed management to all Montanans.

DP 3011 - Bozeman Lab Equipment (OTO/BIEN) - The executive recommends this one-time-only biennial state special authority of \$300,000 to allow the Bozeman Analytical Laboratory to purchase an automated Triple Stage Quadruple Spectrometer System.

New Proposals

New Proposals										
Program	FTE	Fiscal 2008				FTE	Fiscal 2009			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 3002 - Bovine Spongiform Encephalopathy (BSE)										
30	2.50	226,715	0	0	226,715	2.50	177,081	0	0	177,081
DP 3003 - Noxious Weed Trust Fund OTO										
30	0.00	5,000,000	0	0	5,000,000	0.00	0	0	0	0
Total	2.50	\$5,226,715	\$0	\$0	\$5,226,715	2.50	\$177,081	\$0	\$0	\$177,081

DP 3002 - Bovine Spongiform Encephalopathy (BSE) - The executive budget includes \$403,796 general fund to allow for ongoing inspections and testing of livestock feeds over the 2009 biennium.

The department has been conducting surveillance of interstate, intrastate and US-Canadian border feed ingredients and products for the past two years.

These activities and an additional 2.50 FTE positions were funded through one-time-only general fund appropriated during the 2005 Legislative session. These activities were in addition to the Bovine Spongiform Encephalopathy Rule inspections funded through a federal contract with the United States Food and Drug Administration. The department has not found any prohibited feed ingredients distributed in Montana during this period.

The department is requesting continued support of feed safety activities in FY 2008 and FY 2009. This decision package proposes continued support of the 2.50 FTE positions (1.00 FTE chemist and 1.50 FTE agricultural specialists), operational budget, and purchase of a real-time Polymerase Chain Reaction equipment for laboratory analyses. The total cost of this proposal from general fund is \$403,796 for the biennium.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The proposal will allow continued surveillance of feed ingredients and products being distributed into the state of Montana and ensure the most current analytical method is available for feed monitoring.

Goals: To conduct regular surveillance at the US Ports of Entry at Sweetgrass and Raymond where the majority of non-domestic commercial feed and feed ingredients transit into the state. During inspections, samples of commercial feed materials will be collected for monitoring of safe feed ingredients in ruminant feeds. Other ports may be randomly visited to conduct surveillance for sample collection and analysis. Surveillance inspections may also be conducted at Montana Department of Transportation (MDT) check points (weigh stations). Analysis may include Feed Chek to detect undeclared animal proteins, Polymerase Chain Reaction to identify prohibited species animal protein (caprine, ovine, bovine) and microscopy to check types of animal tissue present. Materials found to have prohibited feed materials will be embargoed to prevent the introduction of unapproved feed ingredients or products into Montana feed.

Performance Criteria: The Director of the Montana Department of Agriculture will monitor the performance of surveillance activities at the US Ports of Entry and progress of implementing new analytical methods. This will be

accomplished by review of performance reports submitted quarterly by the department's Feed program and Laboratory.

- Conduct 52 inspections trips to transportation sites per fiscal year.
- Collect samples that represent the types and volume of feeds entering the state.
- Perform analysis on collected feed samples.

Milestones:

Major milestones include the following:

- Performance reports submitted to the director for review on a quarterly basis.
- Recommendation of continued feed surveillance activities at the end of each fiscal year. The report will include proposed changes in the implementation of surveillance activities based on a risk analysis to meet program goals and objectives and industry needs.
- Continued assurance of the protection of livestock industry in Montana.

FTE: Continuance of 2.50 FTE approved by the 2005 Legislature, including the proposed 1.50 FTE grade 14 agricultural specialists responsible for conducting inspections, sampling, and investigations, and 1.0 FTE grade 15 chemist at the Bozeman Analytical Laboratory responsible for conducting analytical testing of submitted feed materials and preparing analytical test reports.

Funding: General fund. The executive budget fully utilizes the state special revenue source for current activity and revenue is insufficient to cover the proposed additional activities. Other commodity state special revenues are statutorily mandated to be used for the program activities for which they are derived. The program does not receive other sources of revenue for these activities.

Obstacles:

- Weather could postpone travel necessary to reach ports for surveillance activities.
- Resources to support increased feed activities in the event of other emergency activities (Bovine Spongiform Encephalopathy disease presence in Montana).

Risks: Without this program the Department cannot provide additional assurance that only safe feed ingredients in ruminant feeds are being distributed in Montana in regard to Bovine Spongiform Encephalopathy.

LFD ISSUE

What is the Policy Goal?

The department states the goal is to conduct surveillance at US ports of entry and analyze samples collected. This describes staff activities rather than the policy goals underlying the activity. The legislature may wish to ask the types of questions listed below when debating the funding options of this decision package:

- What is the policy goal driving the request to increase funding increased surveillance and sample analyses?
- Is it to provide additional assurance that only safe feed ingredients in ruminant feeds are being distributed in Montana in regard to BSE (as summarized in the risk statement?) If so, how much "additional" assurance is needed to reach the goal?
- The question then becomes, how will the legislature, or the executive, or the public know when the goal has been achieved?
- What are the key performance measures of achieving this goal?
- How long would it take to achieve this goal and who will monitor progress?
- How much would it cost to achieve the goal? What other resources might be necessary to implement this goal?
- What is at stake if the goal is not achieved? What would be the impact on agriculture and tourism if the goal is not achieved?

DP 3003 - Noxious Weed Trust Fund OTO - The executive budget recommends a \$5,000,000 one-time-only general fund transfer to the noxious weed trust fund to bring the principal of the trust fund to nearly \$10 million (80-7-814(b), MCA) and increase funding for development and implementation of weed management programs in Montana, per the 2005 Montana Weed Management Plan which includes this proposal as an action. Increasing the noxious weed trust fund principal to \$10 million will approximately double the interest income that the trust fund provides for weed management. The principal in the noxious weed trust fund was approximately \$4.7 million in August 2006.

The Montana Noxious Weed Trust Fund (NWTF) grant program was established by the 1985 Montana Legislature to provide funding for development and implementation of weed management programs in Montana. The Montana Noxious Weed Trust Fund Act is a grant-funding program designed to encourage local cooperative weed management programs, creative research in weed control, including the development of biological control methods, and educational programs (80-7-801 through 821, MCA).

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The 2005 Montana Weed Management Plan includes an action item to increase the principal of the noxious weed trust fund to \$10 million by the year 2010. The department is therefore proposing an increase in the noxious weed trust fund principal to \$10 million which is the maximum amount permitted under 80-7-811, MCA.

Goal: To issue additional grants to county weed districts, local governments, Indian Reservations, and researchers for development of community cooperative weed management programs and new and innovative noxious weed management, education or research projects to improve weed control in Montana.

Performance Criteria: Increased number of grant projects approved in FY 2009.

Milestones:

- o One time transfer from the general fund to the noxious weed trust fund on 7/1/2007.
- o Additional grant dollars available for funding grant proposals on 7/1/2008.

FTE: The department is proposing the addition of 1.00 FTE to assist in managing and monitoring an expected increase in the number of grant projects approved because of increase funding that will be available for funding weed management projects. The new FTE would be hired in FY 2009 because revenue from the trust fund, including the anticipated increase in revenue in FY 2008, is not transferred to the department until the end of the fiscal year.

Funding: The funding for the one time transfer to the noxious weed trust fund is proposed to be state general fund. Interest generated from the noxious weed trust fund is transferred annually to the state special fund per 80-7-816, MCA. The interest varies from year to year, reducing or increasing the amount of funds available to fund the weed grant program.

Obstacles:

- o Approval of transfer.

Risk: The Montana Weed Plan estimates \$47 million per year is needed to reduce noxious weed infestations by five percent per year. Building the trust fund to \$10 million would double the investment income generated for sustainable, on the ground weed management in Montana contributing to the funding needed for weed management. For the FY 2007 noxious weed trust fund grant cycle, the department received eighty-seven applications and partially funded seventy-eight. The council had \$2.1 million to award and the total amount requested from the applicants totaled \$3.9 million. If this proposal is not adopted, the Governor's appointed Montana Noxious Weed Summit Advisory Council, the Montana Weed Control Association, and other interested parties will continue to look for funding sources. The funding of the noxious weed trust fund is a priority for many people. A 75 percent majority of Montanans passed a

constitutional amendment (CA 40) to protect the fund from legislative uses other than those intended, unless appropriated by a three-fourth majority of both Houses. The unanimous passage of HB 0266 (2005 Legislature) to clarify the distribution of funds to the noxious weed management special revenue fund reinforces the importance of weed management to all Montanans.

**LFD
ISSUE**

The department states the goal is to increase the principal of the noxious weed trust fund which increases grants for weed management, cooperative programs, and research. This kind of goal describes staff activities rather than the policy goals underlying the activity. The legislature may wish to ask the types of questions listed below when debating the funding options of this decision package:

- What is the policy goal driving the request to increase funding for weed management, cooperative programs, and research?
- Is it to reduce weed infestations in Montana? Eliminate it?
- The question then becomes, how will the legislature, or the executive, or the public know when the goal has been achieved?
- What are the key performance measures of achieving this goal?
- How long would it take to achieve this goal and who will monitor progress?
- How much would it cost to achieve the goal? What other resources might be necessary to implement this goal?
- What is at stake if the goal is not achieved? What would be the impact on agriculture, forestry, recreation, and tourism if the goal is not achieved?

Proprietary Rates**Proprietary Program Description**

The Alfalfa Leaf-cutting Bee Program (fund 06011) was established in Title 80, Chapter 6, Part 11, MCA. The Alfalfa Seed Committee establishes standards for pathogens and parasites, certification of bees, and management of the program in cooperation with the department. Department personnel perform field and laboratory duties for the committee.

Proprietary Revenues and Expenses

The Alfalfa Leaf-cutting Bee Program is funded from lab and registration fees and investment earnings from fund balance. The executive budget includes a base adjustment of \$1,950 per year.

Proprietary Rate Explanation

Fees are charged for certification and registration of alfalfa leaf-cutter bees in Montana and for laboratory expenses. The fees are set by rule. There is a one-time \$15 registration fee for alfalfa leaf-cutting bee owners. There is a \$30 certification fee per sample for certifying samples. There is a \$30 fee for sample analysis per sample, and if requested an additional fee of \$20 for sex ratio and percent emergence. Rates are \$30 for a minor A license and \$15 for a minor B license.

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Fund	Fund Name	Agency #	Agency Name	Program Name				
6011	Alfalfa Leaf Cutting Bee	62010	Agriculture	Ag Sciences Division				
			Actual	Actual	Actual	Budgeted	Budgeted	Budgeted
			FY04	FY05	FY06	FY07	FY08	FY09
Revenues:								
a								
from Lab Fee			530	660	240	550	550	550
from Registration Fee			-	90	1,140	-	-	-
Net Fee Revenue			530	750	1,380	550	550	550
Earnings			50	112	270	200	250	250
ending Income			-	-	5	-	-	-
			-	-	-	-	-	-
nting Revenues			4	2	-	-	-	-
Total Operating Revenue			584	864	1,655	750	800	800
Expenses:								
ervices			75	-	-	150	100	100
nting Expenses			436	642	622	1,006	2,475	2,475
operating Expenses			511	642	622	1,156	2,575	2,575
ncome (Loss)			73	222	1,033	(406)	(1,775)	(1,775)
ng Revenues (Expenses):								
Sale of Fixed Assets			-	-	-	-	-	-
irect Cost Recoveries			-	-	-	-	-	-
operating Revenues (Expenses)			-	-	-	-	-	-
noperating Revenues (Expenses)			-	-	-	-	-	-
s) Before Operating Transfers			73	222	1,033	(406)	(1,775)	(1,775)
ed Capital			-	-	-	-	-	-
Transfers In (Note 13)			-	-	-	-	-	-
Transfers Out (Note 13)			-	-	-	-	-	-
ge in net assets			73	222	1,033	(406)	(1,775)	(1,775)
sets- July 1 - As Restated			6,784	6,857	7,079	8,112	7,706	5,931
Adjustments			-	-	-	-	-	-
effect of account change			-	-	-	-	-	-
sets - July 1 - As Restated			-	-	-	-	-	-
June 30			6,857	7,079	8,112	7,706	5,931	4,156
expenses								
erating Expenses divided by 6)			85	107	104	193	429	429

Requested Rates for Enterprise Funds

Fee/Rate Information

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Fee Group A						
Certified Samples	30	30	30	30	30	30
Sample Analysis	30	30	30	30	30	30
Sex Ratio	20	20	20	20	20	20
Fee Group B						
Registration	15	15	15	15	15	15

The Alfalfa Leaf-cutting Bee Program was established in 1981. The Alfalfa Seed Committee establishes standards for pathogens and parasites, certification of bees, and management of the program.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	38.37	0.00	0.00	38.37	0.00	0.00	38.37	38.37
Personal Services	1,103,815	442,771	0	1,546,586	447,597	0	1,551,412	3,097,998
Operating Expenses	1,547,826	275,765	0	1,823,591	174,863	0	1,722,689	3,546,280
Equipment	61,091	0	0	61,091	0	0	61,091	122,182
Grants	1,025,271	25,000	0	1,050,271	25,000	0	1,050,271	2,100,542
Total Costs	\$3,738,003	\$743,536	\$0	\$4,481,539	\$647,460	\$0	\$4,385,463	\$8,867,002
General Fund	332,822	29,475	0	362,297	31,104	0	363,926	726,223
State/Other Special	3,143,806	482,109	0	3,625,915	483,487	0	3,627,293	7,253,208
Federal Special	6,137	18,863	0	25,000	18,863	0	25,000	50,000
Proprietary	255,238	213,089	0	468,327	114,006	0	369,244	837,571
Total Funds	\$3,738,003	\$743,536	\$0	\$4,481,539	\$647,460	\$0	\$4,385,463	\$8,867,002

Program Description

The Agricultural Development Division (ADD) administers programs to promote Montana agriculture through market development and enhancement. Assistance is given toward commercialization of traditional as well as innovative agricultural products and processes. The program provides support to the Alfalfa Seed Committee, the Montana Wheat and Barley Committee, the Montana Agricultural Development Council, and the Board of Hail Insurance. The division is comprised of the following bureaus: Rural Development, Wheat and Barley, Agriculture Marketing & Business Development and the State Grain Laboratory. The State Grain Laboratory provides grades, protein determinations, malting barley germination, and falling number tests for contract settlement prices between buyers and sellers of grain crops in Montana.

Program Highlights

Agricultural Development Division Major Budget Highlights	
♦	A significant increase in personal services is attributable to an unusually high vacancy savings rate in FY 2006

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the Governor.

Program Funding Table Agricultural Development						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 332,822	8.9%	\$ 362,297	8.1%	\$ 363,926	8.3%
01100 General Fund	332,822	8.9%	362,297	8.1%	363,926	8.3%
02000 Total State Special Funds	3,143,806	84.1%	3,625,915	80.9%	3,627,293	82.7%
02040 Wheat & Barley Research & Mktg	2,130,666	57.0%	2,146,546	47.9%	2,147,248	49.0%
02066 Agriculture In Mt Schools Act.	6,515	0.2%	10,574	0.2%	10,573	0.2%
02268 Produce Account	4,836	0.1%	5,000	0.1%	5,000	0.1%
02340 Coal Sev. Tax Shared Ssr	508,514	13.6%	625,609	14.0%	623,591	14.2%
02453 Grain Services	486,650	13.0%	815,251	18.2%	817,947	18.7%
02461 Alfalfa Seed Assessment	6,609	0.2%	21,501	0.5%	21,500	0.5%
02466 Misc Ag Donations	16	0.0%	1,434	0.0%	1,434	0.0%
03000 Total Federal Special Funds	6,137	0.2%	25,000	0.6%	25,000	0.6%
03225 Agriculture Add Federal	6,137	0.2%	25,000	0.6%	25,000	0.6%
06000 Total Proprietary Funds	255,238	6.8%	468,327	10.5%	369,244	8.4%
06052 Hail Insurance	255,238	6.8%	468,327	10.5%	369,244	8.4%
Grand Total	\$ 3,738,003	100.0%	\$ 4,481,539	100.0%	\$ 4,385,463	100.0%

General fund supports division administration, agricultural markets, and agriculture statistic functions.

State and other special revenue consist of wheat and barley sales taxes, coal severance tax collections, grain testing fees, alfalfa seed assessments, private donations, income tax check offs for Agriculture in Montana Schools, and interest earnings. The Growth Through Agriculture (GTA) program receives a share of 5.46 percent of coal severance tax collections to fund grants and operations of the Agriculture Development Council for the Montana Growth Through Agriculture Act.

Proprietary funds are from Hail Insurance.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
Fiscal 2008					Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				507,029					512,060
Vacancy Savings				(64,433)					(64,638)
Inflation/Deflation				3,060					3,235
Fixed Costs				19,276					20,540
Total Statewide Present Law Adjustments				\$464,932					\$471,197
DP 5004 - Montana State Hail Insurance Database IT/OTO/BIE	0.00	0	0	100,000 *	0.00	0	0	0	0
DP 5005 - Agriculture In Montana Schools	0.00	0	3,985	3,985	0.00	0	3,985	0	3,985
DP 5006 - Alfalfa Seed Committee	0.00	0	15,175	15,175	0.00	0	15,175	0	15,175
DP 5007 - Montana Agricultural Statistics Services Bulletin	0.00	0	1,018	1,018	0.00	0	1,018	0	1,018
DP 5008 - Federal Marketing Appropriation Authority	0.00	0	25,000	25,000	0.00	0	0	25,000	25,000
DP 5014 - Montana Growth Through Agriculture Act CST	0.00	0	133,426	133,426	0.00	0	131,085	0	131,085
Total Other Present Law Adjustments	0.00	\$0	\$153,604	\$278,604 *	0.00	\$0	\$151,263	\$25,000	\$176,263
Grand Total All Present Law Adjustments				\$743,536 *					\$647,460

**LFD
COMMENT**

The statewide present law personal services adjustment is largely driven by the implementation and annualization of the FY 2007 pay plan approved by the 2005 Legislature (\$141,000) and restoration of salaries and benefits for vacancy savings realized in FY 2006.

DP 5004 - Montana State Hail Insurance Database IT (OTO/BIEN) This request is for information technology services totaling \$100,000 in the Hail proprietary fund for FY 2008 to contract for the rewrite and upgrade of the Montana State Hail Insurance Oracle database. Services would be provided in accordance with the Montana Information Technology Act, the Montana State Strategic Information Technology Plan, and the approved agency information technology plan.

DP 5005 - Agriculture In Montana Schools - The executive budget includes an additional \$3,985 of state special revenue authority each year of the 2009 biennium to increase the appropriation for the Agriculture in Montana Schools program at \$10,500 annually.

The Department of Revenue collects voluntary income tax check-off dollars for distribution to the Department of Agriculture. Per 15-30-152, MCA, this money is jointed used by educators and representatives of agricultural organizations for developing and presenting educational programs which give Montana students a better understanding of the role of agriculture in all aspects of society and of how Montana agriculture relates to the rest of the world.

**LFD
COMMENT**

The annual expenditures for this program over the last five years have ranged from \$6,500 to \$12,000; the five-year average is \$9,055.

DP 5006 - Alfalfa Seed Committee - This budget request for \$30,350 in the 2009 biennium provides the Alfalfa Seed Committee with expenditure authority for payment of per diem and research grants. The Alfalfa Seed Committee is administratively attached to the Montana Department of Agriculture per 2-15-3004, MCA. Seven members currently serve on the committee. Funds are available from the alfalfa seed fund (02461).

DP 5007 - Montana Agricultural Statistics Services Bulletin - The executive is requesting an appropriation of \$2,036 for the biennium to be allow the Montana Agricultural Statistics Service to spend funds received from the sale of bulletins.

DP 5008 - Federal Marketing Appropriation Authority - This request of \$25,000 federal revenue authority each year is for grants to develop agriculture markets, marketing projects, and related operating costs.

DP 5014 - Montana Growth Through Agriculture Act CST - The executive budget includes \$264,511 of state special revenue authority from the coal severance tax shared account for the Agriculture Development Council that is administratively attached to the department to use for agricultural development project loans.

**LFD
COMMENT**

When combined with the present law base, the total coal severance tax shared account allocated to the department in the executive budget request would be \$625,609 in FY 2008 and \$623,591 in FY 2009. This account is shared with the Department of Natural Resources & Conservation and the Montana State Library. The executive budget over-allocates the available funding in the 2009 biennium. Please refer to the narrative for the Montana State Library in Volume 7 of the Legislative Budget Analysis for the 2009 Biennium for more detailed information on this issue.

Proprietary Rates**Proprietary Program Description
Hail Insurance Program**

The hail insurance program (fund 06052) has been in operation since 1917. The function of the program is to provide low cost hail insurance coverage for many crops grown in Montana to assist producers in recovering their input costs

should there be hail damage. The program insures approximately 1.7 million acres of crops with coverage exceeding \$60 million each year. The program pays for 3.17 permanent FTE and 5.88 seasonal FTE to support program operations. The program is statutorily appropriated under Title 80, Chapter 2, part 2, MCA.

Proprietary Revenues and Expenses

The hail insurance program is funded from premiums, penalties, and investment earnings. Premiums are set by the Board of Hail Insurance and vary by county based on risk. Operating expenses include commissions and benefits paid.

Rate Explanation

Hail premiums charged are set by 80-2-208, MCA, and cannot exceed \$40 per acre for non-irrigated land and \$56 per acre for irrigated land.

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Fund 6052	Fund Name Hail Insurance	Agency # 62010	Agency Name Agriculture	Program Name Ag Development Division					
				Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:									
Fee revenue									
Net Fee Revenue									
				-	-	-	-	-	-
Investment Earnings				61,507	157,809	363,176	360,000	360,000	360,000
Accommodations Tax				-	-	-	100	100	100
Securities Lending Income				-	-	6,331	-	-	-
Hail Insurance Premium				3,741,627	4,644,419	5,801,660	5,000,000	5,000,000	5,000,000
Hail Insurance Premium Penalty & Interest				6,094	5,690	8,551	3,000	3,000	3,000
Total Operating Revenue				3,809,228	4,807,918	6,179,718	5,363,100	5,363,100	5,363,100
Operating Expenses:									
Personal Services									
				226,367	212,243	238,457	252,829	285,676	286,255
Other Operating Expenses									
				1,722,256	2,940,967	4,393,390	7,064,204	6,879,815	6,792,403
Total Operating Expenses				1,948,623	3,153,210	4,631,847	7,317,033	7,165,491	7,078,658
Operating Income (Loss)				1,860,605	1,654,708	1,547,871	(1,953,933)	(1,802,391)	(1,715,558)
Nonoperating Revenues (Expenses):									
Gain (Loss) Sale of Fixed Assets									
				-	-	-	-	-	-
Federal Indirect Cost Recoveries									
				-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)									
				-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)				-	-	-	-	-	-
Income (Loss) Before Operating Transfers				1,860,605	1,654,708	1,547,871	(1,953,933)	(1,802,391)	(1,715,558)
Contributed Capital									
				-	-	-	-	-	-
Operating Transfers In (Note 13)									
				-	-	-	-	-	-
Operating Transfers Out (Note 13)									
				(13,732)	(37,659)	(69,038)	(33,732)	(69,038)	(69,038)
Change in net assets				1,846,873	1,617,049	1,478,833	(1,987,665)	(1,871,429)	(1,784,596)
Total Net Assets- July 1 - As Restated				5,285,218	7,132,092	8,749,141	10,227,974	8,240,309	6,368,880
Prior Period Adjustments				1	-	-	-	-	-
Cumulative effect of account change				-	-	-	-	-	-
Total Net Assets - July 1 - As Restated				-	-	-	-	-	-
Net Assets- June 30				7,132,092	8,749,141	10,227,974	8,240,309	6,368,880	4,584,284
60 days of expenses									
(Total Operating Expenses divided by 6)				324,771	525,535	771,975	1,219,506	1,194,249	1,179,776
Requested Rates for Enterprise Funds									
Fee/Rate Information									
				Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Premium				1.5	1.5	1.5	1.5	1.5	1.5
Hail premiums are set by the Board of Hail Insurance and vary by county based on risk. The Hail Insurance Program has been in operation since 1971. The function of the program is to provide low cost hail insurance coverage for any crop grown in Montana to assist producers in recovering their input costs should there be hail damage. The program insures approximately 1.4 million acres of crops with coverage exceeding \$30 million each year. The Hail Board establishes the rates. There are 56 zones, of which each could have it's own separate rate.									

Proprietary Program Description**Montana Beginning Farmer/Rancher Loan Program**

The Montana Beginning Farmer/Rancher Loan Program (fund 06016) is a tax-exempt bond program designed to assist beginning farmers/ranchers in the state of Montana to acquire agricultural property at lower interest rates. The program enables lenders, individuals, partnerships, corporations, and other entities to receive federally tax-exempt interest with respect to a loan or contract sale made to a qualifying beginning farmer/rancher. The financial institution, after arranging the loan or sales contract, will obtain from the Montana Agriculture Loan authority (the authority) a federally tax-exempt bond in the amount of the loan or unpaid balance. The loan and its collateral will be assigned to the financial institution as security for the bond. In the case of a contract sale, the contract will be entered into by the authority, and the Financial Institution will receive the bond to evidence the authority's obligations under the contract. The authority's right, title and interest in the contract will then be assigned to the beginning farmer/rancher who assumes payment obligations of the

authority under the contract. Once the program is operational, it will fund a 0.50 FTE and related operating expenses. The FTE will not be filled until revenue will support it. The program is statutorily appropriated under Title 80, Chapter 12, Part 2, MCA.

Proprietary Revenues and Expenses

The Montana Beginning Farmer/Rancher Loan Program is funded from loan fees and investment earnings on the fund balance. Loans made are recorded as operating expenses. No loans were issued in the 2007 biennium.

Rate Explanation

Applicants pay a \$50 application fee and a loan participation fee of 1.5% of the value of the bond.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6016	Beginning Farm/Ranch Loan Prg	62010	Agriculture	Ag Development Division

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Beginning Farm Ranch Loan Fees	3,300	25	-	56,000	61,000	60,000
Net Fee Revenue	3,300	25	-	56,000	61,000	60,000
Investment Earnings	14	12	23	50	50	50
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	-	-	-	-	-	-
Total Operating Revenue	3,314	37	23	56,050	61,050	60,050
Operating Expenses:						
Personal Services	-	-	-	-	-	-
Other Operating Expenses	3,343	-	-	58,200	58,200	58,200
Total Operating Expenses	3,343	-	-	58,200	58,200	58,200
Operating Income (Loss)	(29)	37	23	(2,150)	2,850	1,850
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(29)	37	23	(2,150)	2,850	1,850
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(29)	37	23	(2,150)	2,850	1,850
Total Net Assets- July 1 - As Restated	2,316	2,287	2,324	2,347	197	3,047
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	-	-	-	-	-	-
Net Assets- June 30	2,287	2,324	2,347	197	3,047	4,897
60 days of expenses						
(Total Operating Expenses divided by 6)	557	-	-	9,700	9,700	9,700
Requested Rates for Enterprise Funds						
Fee/Rate Information						
	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Fee Group A	-	-	-	-	-	-
% of loan balance	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%

Agency Proposed Budget

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	42.66	5.50	4.00	52.16	6.00	4.00	52.66	52.66
Personal Services	2,159,785	475,911	191,305	2,827,001	502,169	191,532	2,853,486	5,680,487
Operating Expenses	2,373,103	2,971,002	1,614,215	6,958,320	2,765,992	1,610,797	6,749,892	13,708,212
Equipment	0	0	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	16,806,107	22,928,071	2,000,000	41,734,178	4,838,461	0	21,644,568	63,378,746
Benefits & Claims	0	0	0	0	0	0	0	0
Transfers	0	0	3,000,000	3,000,000	0	0	0	3,000,000
Total Costs	\$21,338,995	\$26,374,984	\$6,805,520	\$54,519,499	\$8,106,622	\$1,802,329	\$31,247,946	\$85,767,445
General Fund	1,960,812	5,498,577	5,305,520	12,764,909	5,277,138	302,329	7,540,279	20,305,188
State/Other Special	1,892,461	4,448,371	1,500,000	7,840,832	2,500,553	1,500,000	5,893,014	13,733,846
Federal Special	17,485,722	16,428,036	0	33,913,758	328,931	0	17,814,653	51,728,411
Total Funds	\$21,338,995	\$26,374,984	\$6,805,520	\$54,519,499	\$8,106,622	\$1,802,329	\$31,247,946	\$85,767,445

Agency Description

The Department of Commerce works with economic and community development organizations, businesses, communities, governmental entities, elected officials, and the public to diversify and expand the state's economic base through business creation and expansion, and retention and improvement of infrastructure, housing and facilities.

The department is composed of eight major divisions including Business Resources, Montana Promotion, Community Development, Housing, and Director's Office/Management Services divisions, as well as the Board of Research and Commercialization, the Montana Facility Finance Authority, the Montana Board of Investments, and the Montana Heritage Commission.

Agency Highlights

Department of Commerce Major Budget Highlights	
♦	The biennial budget would double if all of the executive proposals were adopted
♦	General fund would increase \$16.4 million due primarily to the Governor's recommendation to continue most of the economic development programs funded by the 2005 Legislature as one-time only- appropriations
♦	The Governor also funds several new initiatives with general fund in his proposed budget, including: <ul style="list-style-type: none"> • Manufactured Home Renovation Program -- \$3.0 million OTO seed money for a revolving loan • Biomedical Research Grant -- Biennial/OTO -- \$2.0 million • Revive the Community Technical Assistance Program -- \$0.3 million • Transfer Tribal Economic Development Commission to the department -- \$0.2 million • Fund Montana Capital Investment Board -- OTO - \$0.4 million general fund and \$0.07 million state special revenue

- ◆ State special revenue authority would increase \$9.9 million
 - Manufactured Home Renovation Program -- \$3.0 million authority for the revolving loan
 - Micro Business Revolving Loans -- \$4.0 million
 - Coal Board grant authority – Biennial - \$1.1 million
 - Statewide and other present law adjustments -- \$1.3 million
- ◆ Federal special revenue authority would increase \$16.8 million
 - Authority to record pre-2004 outstanding federal grant awards -- \$16.4 million
 - Statewide and other present law adjustments -- \$0.4 million

Department of Commerce

Major LFD Issues

- ◆ Many of the new or continued initiatives lack specific and/or meaningful performance measures and milestones that will enable the legislature to evaluate the success of the program

Agency Discussion

Goals and Objectives:

State law requires agency and program goals and objectives to be specific and quantifiable to enable the legislature to establish appropriations policy. As part of its appropriations deliberations the legislature may wish to review the following:

- Goals, objectives and year-to-date outcomes from the 2007 biennium
- Goals and objectives and their correlation to the 2009 biennium budget request
-

Any issues related to goals and objectives raised by LFD staff are located in the program section.

Statutory Appropriations

Several programs in the department are funded with statutory appropriations. These appropriations are in statute, and consequently are not included in HB 2. Figure 1 presents the statutory reference for each appropriation, what the appropriation is for, and the actual and projected expenditures for the current and upcoming biennia.

Figure 1
Department of Commerce
Statutory Appropriations
FY 2006 - 2009

Program	MCA Reference	Description	Fund Source	FTE Fiscal 2006	FTE Fiscal 2009	FY 2006 Base	FY 2008 Executive Budget	FY 2009 Executive Budget
Research & Commercialization	15-35-108	Research & Commercialization	General Fund ⁽¹⁾			\$3,650,000	\$3,650,000	\$3,650,000
Research & Commercialization	90-3-1003	Research & Commercialization	State Special	2.00	2.00	4,432,143	4,447,904	4,444,822
Business Resources Division	15-35-108	Business & Economic Development	General Fund	4.00	4.00	1,099,655	1,100,000	1,100,000
Business Resources Division	90-1-205	Big Sky Economic Development	State Special	1.00	1.00	176,005	1,818,811	2,076,433
Business Resources Division	15-65-121	Lodging Facility Use Tax	State Special			150,000	150,000	150,000
Montana Promotion Division	15-65-121	Lodging Facility Use Tax-Regional	State Special			3,256,146	3,607,913	3,789,309
Montana Promotion Division	15-65-121	Lodging Facility Use Tax-Department	State Special	27.00	27.00	8,262,001	10,648,672	11,118,691
Board of Investments	17-7-502	Debt Service	Proprietary			3,068,933	5,621,546	5,781,182
MT Heritage Commission	22-3-1004	MT Heritage Commission	State Special	18.25	18.25	1,133,018	1,303,514	1,302,242
MT Heritage Commission	22-3-1004	MT Heritage Commission	Federal Special			15,868	20,000	20,000
GRAND TOTAL				52.25	52.25	<u>\$25,243,769</u>	<u>\$32,368,360</u>	<u>\$33,432,679</u>
Total General Fund						\$4,749,655	\$4,750,000	\$4,750,000
Total State Special						17,409,313	21,976,814	22,881,497
Total Federal						15,868	20,000	20,000
Total Proprietary						<u>3,068,933</u>	<u>5,621,546</u>	<u>5,781,182</u>
GRAND TOTAL						<u>\$25,243,769</u>	<u>\$32,368,360</u>	<u>\$33,432,679</u>

(1) The general fund appropriation is deposited to a state special revenue fund for the research & commercialization program.

2007 Biennium New Initiative Update

The 2005 Legislature approved a \$1.0 million general fund one-time-only appropriation for an Indian Country Economic Development program intended to promote economic development on Tribal reservations. In FY 2006, each tribe was awarded \$55,000 for Tribal economic development projects that addressed a priority economic development need identified by the Tribal government. In FY 2007, \$50,000 will be awarded to each tribe. The remaining funds were used for economic analysis of the reservation economies in Montana and other related activities. The executive budget recommends continuing the funding for this program as a one-time-only but increasing the biennial appropriation to \$1.6 million general fund.

The 2005 Legislature approved a \$2.8 million general fund one-time-only appropriation and 2.0 FTE for the Worker Training Program for the 2007 biennium intended to provide grants for work force training that results in high-wage and high-skilled jobs. One hundred thousand dollars each year was set aside for program administration, leaving \$2.6 million available for grants in the 2007 biennium. In FY 2006, two grants totaling \$275,000 were distributed, and in FY 2007, four grants totaling \$2.07 million were distributed. The executive anticipates distributing the remaining \$255,000 by the end of FY 2007. The executive budget recommends continuing the funding for this program as a one-time-only but increasing the biennial appropriation to \$8.0 million general fund.

Funding

The following table summarizes funding for the agency, by program and source, as recommended by the executive. Funding for each program is discussed in detail in the individual program narratives that follow.

Total Agency Funding 2009 Biennium Executive Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
51 Business Resources Division	\$ 16,366,239	\$ 4,701,310	\$ 11,562,461	\$ 32,630,010	38.04%
52 Montana Promotion Division	-	1,519,595	-	1,519,595	1.77%
60 Community Development Division	834,705	4,512,941	21,293,967	26,641,613	31.06%
74 Housing Division	3,104,244	3,000,000	17,420,691	23,524,935	27.43%
81 Director/Management Services	-	-	1,451,292	1,451,292	1.69%
Grand Total	<u>20,305,188</u>	<u>13,733,846</u>	<u>51,728,411</u>	<u>85,767,445</u>	100.00%

The Department of Commerce is funded from general fund, state special revenue, federal special revenue, and proprietary funds. Proprietary funds are excluded from the above agency proposed budget table and HB 2. However, proprietary funds are presented and discussed in the budget analysis in the various programs in the department that use proprietary funds. Also excluded from the agency proposed budget table and HB 2 are statutory appropriations for several programs administered by the department. See Figure 1 in the Agency Discussion section at the beginning of the agency narrative for a summary of statutory appropriations for the current and upcoming biennia.

The Governor proposes adding new programs to the department in the 2009 biennium, as well as restoring several programs that were funded with one time only appropriations by the 2005 Legislature. Per state statute, one-time-only appropriations are excluded from the base expenditures for biennial budget projections.

The Governor funds most of the proposed new and restored programs with general fund. General fund would increase \$16.4 million, 417 percent, from the doubled FY 2006 base in the 2009 biennium. Proposed new programs funded with general fund include:

1. Manufactured Home Renovation Program -- \$3.0 million OTO seed money that would be transferred to a state special revenue fund for a revolving loan account, and \$104,244 general fund for base administration costs;
2. Biomedical Research Grant -- Biennial/OTO -- \$2.0 million;
3. Restore funding for the Community Technical Assistance program -- \$332,196 added to the base in the 2009 biennium;
4. Transfer the Tribal Economic Development Commission from the Governor's Office to the Department of Commerce -- \$171,409 added to the base in the 2009 biennium; and
5. Montana Capital Investment Board -- OTO -- \$370,146 general fund and \$73,209 state special revenue.

The Governor also continues or increases one time only general fund appropriations authorized by the 2005 Legislature as listed below:

1. New Worker Training -- OTO -- \$8.0 million for the 2009 biennium, up from \$2.8 million for the 2007 biennium;
2. Main Street -- OTO -- The Governor recommends \$247,044 general fund for continuing this program in the 2009 biennium, a funding switch from the highways non-restricted funds approved by the 2005 Legislature;
3. Made in Montana -- OTO -- \$200,000, the same amount as the 2007 biennium; and
4. Tribal Economic Development -- OTO -- \$1.6 million, up from \$1.0 million for the 2007 biennium.

State special revenue would increase \$9.9 million, 262 percent, in the 2009 biennium from the doubled FY 2006 base for new proposals and present law adjustments recommended by the Governor:

1. Establish Manufactured Home Renovation Revolving Fund -- \$3.0 million;
2. Add authority for Micro Business Revolving Loans -- \$4.0 million;
3. Increase Coal Board grant authority -- Biennial -- \$1.1 million;
4. Increase private fund authority in Montana Promotion Division -- \$518,480; and
5. Statewide and other present law adjustments -- \$1.3 million.

Federal special revenue would increase \$16.8 million, 48 percent, in the 2009 biennium from the doubled FY 2006 base for present law adjustments recommended by the Governor:

1. Increased federal authority to allow the department to record expenditure accruals for outstanding pre-2004 federal grant awards -- \$16.4 million; and
2. Statewide and other present law adjustment -- \$.4 million.

Biennium Budget Comparison

The following table compares the executive budget request in the 2009 biennium with the 2007 biennium by type of expenditure and source of funding. The 2007 biennium consists of actual FY 2006 expenditures and FY 2007 appropriations.

Budget Item	Present Law Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	Present Law Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Biennium Fiscal 06-07	Total Exec. Budget Fiscal 08-09
FTE	48.16	4.00	52.16	48.66	4.00	52.66	42.66	52.66
Personal Services	2,635,696	191,305	2,827,001	2,661,954	191,532	2,853,486	4,513,497	5,680,487
Operating Expenses	5,344,105	1,614,215	6,958,320	5,139,095	1,610,797	6,749,892	5,313,079	13,708,212
Equipment	0	0	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	39,734,178	2,000,000	41,734,178	21,644,568	0	21,644,568	35,051,421	63,378,746
Benefits & Claims	0	0	0	0	0	0	0	0
Transfers	0	3,000,000	3,000,000	0	0	0	0	3,000,000
Total Costs	\$47,713,979	\$6,805,520	\$54,519,499	\$29,445,617	\$1,802,329	\$31,247,946	\$44,877,997	\$85,767,445
General Fund	7,459,389	5,305,520	12,764,909	7,237,950	302,329	7,540,279	3,989,046	20,305,188
State/Other Special	6,340,832	1,500,000	7,840,832	4,393,014	1,500,000	5,893,014	5,026,623	13,733,846
Federal Special	33,913,758	0	33,913,758	17,814,653	0	17,814,653	35,862,328	51,728,411
Total Funds	\$47,713,979	\$6,805,520	\$54,519,499	\$29,445,617	\$1,802,329	\$31,247,946	\$44,877,997	\$85,767,445

New Proposals

The "New Proposals" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

Program	FTE	Fiscal 2008				FTE	Fiscal 2009			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 5111 - Tribal Economic Development Commission - HB0002 (Requires Legislation)										
51	1.00	85,657	0	0	85,657	1.00	85,752	0	0	85,752
DP 5112 - BRD - Biomedical Research Grant - Bien/OTO										
51	0.00	2,000,000	0	0	2,000,000	0.00	0	0	0	0
DP 6001 - CDD Community Technical Assistance Program HB0002										
60	2.00	166,026	0	0	166,026	2.00	166,170	0	0	166,170
DP 7411 - HD Manufactured Home Renovation Program - OTO										
74	1.00	3,053,837	0	0	3,053,837	1.00	50,407	0	0	50,407
DP 7412 - HD Manufactured Home Renovation Program SSR Approp										
74	0.00	0	1,500,000	0	1,500,000	0.00	0	1,500,000	0	1,500,000
Total	4.00	\$5,305,520	\$1,500,000	\$0	\$6,805,520	4.00	\$302,329	\$1,500,000	\$0	\$1,802,329

Agency Issues*FY 2008 OTO Federal Grants Adjustment Requests*

The executive budget includes \$16.4 million additional federal spending authority in FY 2008 as a one-time-only appropriation to allow the department to record expenditure accruals for pre-FY 2004 outstanding federal grant awards in three of its divisions. The department receives federal grants from the U.S. Department of Housing and Urban Development (HUD) for which it has federal grant authority to obligate and spend over a number of years. The executive recommends adding state appropriation authority in FY 2008 only to allow the department to accrue outstanding obligations.

The amount of the executive recommendation is an estimate only. The legislature may wish to consider restricting the federal appropriation authority for its intended, stated purpose. This would allow the department to have the federal authority available if needed and would also prevent the authority from being transferred to other programs and used for other purposes.

Economic Development Programs

The executive budget includes several economic development programs that were started in recent sessions, as well as proposing new economic development initiatives. The funding for these economic development programs is appropriated via HB 2 or a statutory appropriation.

The figure below lists the economic development programs included in the executive budget. The table also includes the appropriation authority source and the proposed budget for the 2009 biennium. Those programs funded in HB 2 are discussed in more detail in the program narratives for the Department of Commerce. Those programs funded via a statutory appropriation are not in HB 2 and consequently sometimes do not receive the same level of scrutiny as HB 2 appropriations. The legislature may wish to require information from the executive that allows it to evaluate the effectiveness of the economic development programs. For example, the Research and Commercialization statutory appropriation was established in the 2000 special legislative session. The legislature may wish to review the goals of the Research and Commercialization program established at that session and evaluate its success. Is the program still necessary? Similarly with the Big Sky Economic Development program approved by the 2005 Legislature; what were the goals of the program and what outcomes will define success for this program?

Figure 2
Economic Development Programs
Executive Budget Request 2009 Biennium

Program	Appropriation Authority	Fund	FY 2006 Base	FY 2007 Estimated	FY 2008 Executive Budget	FY 2009 Executive Budget
Research & Commercialization	Statutory	Gen Fund	\$3,650,000	\$3,650,000	\$3,650,000	\$3,650,000
Research & Commercialization	Statutory	SSR	4,432,114	3,809,544	4,447,904	4,444,822
Business & Economic Development	Statutory	Gen Fund	1,099,655	1,100,000	1,100,000	1,100,000
Big Sky Economic Development	Statutory	SSR	176,005	1,581,000	1,818,811	2,076,433
New Worker Training - OTO	HB 2	Gen Fund	599,511	2,200,489	3,397,361	3,997,450
Main Street - OTO	HB 2	Gen Fund	0	0	123,496	123,548
Main Street - OTO	HB 2	SSR	125,000	125,000	0	0
Made in Montana - OTO	HB 2	Gen Fund	100,000	100,000	100,000	100,000
Tribal Economic Development-OTO	HB 2	Gen Fund	490,979	500,000	798,496	798,548
Biomed Research Grant - OTO	HB 2	Gen Fund	0	0	2,000,000	0
MT Capital Investment Board	HB 2	Gen Fund	0	0	296,936	73,210
MT Capital Investment Board	HB 2	SSR	0	0		73,209
Community Technical Assistance Program (CTAP)	HB 2	Gen Fund	0	0	166,026	166,170
Modular Home Revolving Loan-Seed Money	HB 2	Gen Fund	0	0	3,000,000	0
Modular Home Revolving Loan-Spending Authority	HB 2	SSR	0	0	1,500,000	1,500,000
GRAND TOTAL			\$10,673,264	\$13,066,033	\$22,399,030	\$18,103,390
Total General Fund			\$5,940,145	\$7,550,489	\$14,632,315	\$10,008,926
Total State Special Revenue			4,733,119	5,515,544	7,766,715	8,094,464

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	24.16	5.50	1.00	30.66	6.00	1.00	31.16	31.16
Personal Services	1,222,526	427,771	40,188	1,690,485	450,631	40,226	1,713,383	3,403,868
Operating Expenses	1,268,663	2,578,311	45,469	3,892,443	2,403,965	45,526	3,718,154	7,610,597
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	4,124,259	6,690,906	2,000,000	12,815,165	4,676,121	0	8,800,380	21,615,545
Total Costs	\$6,615,448	\$9,696,988	\$2,085,657	\$18,398,093	\$7,530,717	\$85,752	\$14,231,917	\$32,630,010
General Fund	1,736,790	5,470,373	2,085,657	9,292,820	5,250,877	85,752	7,073,419	16,366,239
State/Other Special	138,229	2,176,463	0	2,314,692	2,248,389	0	2,386,618	4,701,310
Federal Special	4,740,429	2,050,152	0	6,790,581	31,451	0	4,771,880	11,562,461
Total Funds	\$6,615,448	\$9,696,988	\$2,085,657	\$18,398,093	\$7,530,717	\$85,752	\$14,231,917	\$32,630,010

Program Description

The Business Resources Division is comprised of a variety of programs aimed at improving, enhancing, and diversifying Montana's economic and business climate. Working closely with the private sector, the Governor's Office, the Legislature, economic and community development partners, other department divisions, state agencies, and federal and private programs, the division strives to enhance the economic base of Montana through business creation, expansion, and retention efforts.

Business Resources Division responsibilities are mandated primarily in Title 30, Chapter 16; Title 17, Chapter 6; and Title 90, Chapter 1 and 10, MCA.

Program Highlights

Business Resources Division Major Budget Highlights	
<ul style="list-style-type: none"> ◆ Governor continues or increases economic development programs funded by the 2005 Legislature ◆ Total budget increases 146 percent in the 2009 biennium from the doubled FY 2006 base, due primarily to the continuation of the economic development programs ◆ Governor recommends the Montana Capital Investment Board created by the 2005 Legislature be funded in the 2009 biennium 	
Major LFD Issues	
<ul style="list-style-type: none"> ◆ Many of the economic development programs lack specific and/or meaningful performance measures and milestones that will enable the legislature to evaluate the success of the program 	

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Business Resources Divis							
Program Funding		Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000	Total General Fund	\$ 1,736,790	26.3%	\$ 9,292,820	50.5%	\$ 7,073,419	49.7%
01100	General Fund	1,736,790	26.3%	9,292,820	50.5%	7,073,419	49.7%
02000	Total State Special Funds	138,229	2.1%	2,314,692	12.6%	2,386,618	16.8%
02044	Sbir Ebscor	6,921	0.1%	10,000	0.1%	10,000	0.1%
02090	Business Asst-Private	5,980	0.1%	75,000	0.4%	148,209	1.0%
02210	Microbusiness Admin Acct	84,896	1.3%	179,692	1.0%	178,409	1.3%
02212	Microbusiness Loan Acct	-	-	2,000,000	10.9%	2,000,000	14.1%
02563	Nat'L Dev. Cncl Training Funds	33,990	0.5%	35,000	0.2%	35,000	0.2%
02791	Sbir Private Funds	6,442	0.1%	15,000	0.1%	15,000	0.1%
03000	Total Federal Special Funds	4,740,429	71.7%	6,790,581	36.9%	4,771,880	33.5%
03059	Community Development Block	4,206,604	63.6%	6,232,128	33.9%	4,215,581	29.6%
03061	Eda Revolving Loan Fund	12,030	0.2%	15,000	0.1%	15,000	0.1%
03207	Small Business Dev. Centers	521,795	7.9%	543,453	3.0%	541,299	3.8%
Grand	Total	\$ 6,615,448	100.0%	\$ 18,398,093	100.0%	\$ 14,231,917	100.0%

The overall budget for this division as proposed by the executive increases 146 percent in the 2009 biennium from the doubled FY 2006 base, reflecting the Governor's recommendation to continue funding for economic development programs that were funded with one-time-only appropriations by the 2005 Legislature. FY 2006 actual one-time-only appropriations are excluded from the base expenditures for biennial budget projections.

Base level, on-going functions funded in whole or in part by state general fund include:

- o Census and Economic Information Center
- o Regional Development Bureau
- o Trade and international relations activities
- o Entrepreneur Development Program /NxLevel
- o Made in Montana program
- o Match on federal funds for the administrative costs of the community development block grants and small business development centers

Proposed additional general fund appropriations for the 2009 biennium include:

- 1) Continue the New Worker Training program, but increase funding from \$2.8 million in the 2007 biennium to almost \$8.0 million in the 2009 biennium;
- 2) Continue the one-time-only appropriation for the revived Made in Montana program, \$200,000 in the 2009 biennium;
- 3) Switch the funding for the Main Street program from highway state special revenue to general fund, \$200,000 in the 2009 biennium;
- 4) Continue the Tribal Economic Development program, but increase funding from \$1.0 million in the 2007 biennium to \$1.6 million in the 2009 biennium;
- 5) A \$370,146 appropriation and 2.0 FTE to launch the Montana Capital Investment Board that was created, but not funded, in SB 133 by the 2005 Legislature;
- 6) Transfer the State Tribal Economic Development Commission from the Governor's Office to the department, at a biennial cost of \$171,409 and 1.0 FTE; and
- 7) A one-time-only biennial appropriation of \$2.0 million for grant funding to support innovative biomedical research in Montana.

State special revenue increases significantly as the executive includes \$2.0 million each year from the micro business loan account to record loans to qualifying micro businesses in Montana. No loans were made in the base year.

Community development block grants and Small Business Development Centers are primarily funded with federal funds, with state special revenue from private industry partners providing a portion of the funding. Federal special revenue increases \$2.0 million in FY 2008 to allow the department to record expenditure accruals for outstanding pre-2004 federal grant awards.

Since lodging facility use tax revenues are statutorily appropriated, this amount does not require legislative appropriation in HB 2 and as a result, does not appear in the funding tables. The Trade and International Relations program also receives funding from the Growth Through Agriculture program in the Department of Agriculture. The Agricultural Development Council determines the amount of grant funds to be transferred to the division, which has typically been \$90,000 per year for this purpose.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2008						Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				247,397					252,031	
Vacancy Savings				(58,799)					(58,982)	
Inflation/Deflation				2,358					2,957	
Fixed Costs				8,223					1,009	
Total Statewide Present Law Adjustments				\$199,179					\$197,015	
DP 5101 - BRD New Worker Training HB0002- OTO										
2.00	3,997,361	0	0	3,997,361	2.00	3,997,450	0	0	3,997,450	
DP 5103 - BRD Main Street HB0002- OTO										
1.00	123,496	0	0	123,496	1.00	123,548	0	0	123,548	
DP 5104 - BRD Made In Montana HB0002- OTO										
0.00	100,000	0	0	100,000	0.00	100,000	0	0	100,000	
DP 5105 - BRD Tribal Economic Development HB0002 - OTO										
1.00	798,496	0	0	798,496	1.00	798,548	0	0	798,548	
DP 5106 - BRD Montana Capital Investment Board HB0002- OTO										
1.50	296,936	0	0	296,936	2.00	73,210	73,209	0	146,419	
DP 5108 - BRD Federal Grants Adjustment HB0002- OTO										
0.00	0	0	2,014,785	2,014,785	0.00	0	0	0	0	
DP 5109 - BRD Administrative Costs Adjustments HB0002										
0.00	71,547	2,083,310	11,878	2,166,735	0.00	72,448	2,083,409	11,880	2,167,737	
Total Other Present Law Adjustments										
5.50	\$5,387,836	\$2,083,310	\$2,026,663	\$9,497,809	6.00	\$5,165,204	\$2,156,618	\$11,880	\$7,333,702	
Grand Total All Present Law Adjustments				\$9,696,988					\$7,530,717	

LFD COMMENT

The annual statewide present law personal services adjustment is a 20 percent increase over the personal services base expenditures. About \$110,000 of the annual \$250,000 adjustment is attributable to annualizing the 2007 biennium pay increase and health insurance adjustments approved by the 2005 Legislature. The remaining increase is due to restoring the budget for base year vacancies.

DP 5101 - BRD New Worker Training HB0002- OTO - The executive budget continues the New Worker Training program funded by the 2005 Legislature and recommends increasing the funding to approximately \$8.0 million for the 2009 biennium. This program is intended to provide funding to meet the training needs of employees working in expanding primary sector industries in Montana.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: Montana was one of the last states in the country to create a state funded workforce training program that trains workers for new jobs created by new or expanding businesses. There are a variety of tools that states use to attract new investment but the one found to be most in demand by private business looking to expand around the country is a State resource for training the new workers they will be hiring. This economic development tool is a catalyst for creating new, good jobs in Montana that pay benefits.

Goals: The goals of this proposal are to attract new investment in Montana leading to the creation of new jobs that pay a minimum of the state average wage or county average wage where the business is located.

Performance Measures

- Records of training provided and costs incurred in that training must be submitted to the Department of Commerce
- The business will submit status reports on project performance at the request of, and in the format prescribed by, the department. These reports include, but are not limited to:
 - Biannual progress reports providing evidence of total payroll and employment for statewide operations.
 - Project progress reports will be submitted with each request for funds describing the status of the project with respect to each implementation objective:
 - Names and current positions of employees being trained
 - Current salaries of trainees and any changes to salaries through the project
 - Summary of the training program and overall goal (certifications, skills, new positions to be filled by trainees, etc.) for each trainee
 - Summary of training accomplished for the period in which funds are being requested
 - Total cost and breakdown of costs for each employee for which funds are being requested
 - Amounts requested for each trainee and amount remaining of the \$5,000 ceiling after the request
 - Amount of matching funds expended to date
 - Total amount requested and total remaining under the contract
 - Any other pertinent information related to the grant and progress on the hiring and training plan

Milestones: Since we have been operating the New Worker Training Program since the beginning of the 2007 biennium, the key activities of the program have already been completed. There is an application process and guidelines that have been developed. The Grant Review Committee has been established and has met on three occasions to adopt rules and to review and make grant awards. Contracts with current grantees are in place. We are continuing to work with potential applicants informing them that we are requesting additional funding for the program that would be available at the beginning of the new biennium.

FTE: The work is being performed by existing and new staff of the Department of Commerce.

Funding: The executive budget funds this decision package from the state general fund. The maximum grant award is \$5,000 for each new job. The business is required to provide a match of at least one dollar for every three dollars awarded.

Obstacles: The proposal has been implemented and is working well.

Risks: The risk to the state if the proposal is not adopted is that this tool will not be available to attract new business enterprises to Montana and the quality jobs that come with this new investment. The State will not see the economic progress that would have occurred by using this tool. The State of Montana will forego new general fund revenue in the form of taxes far in excess of the cost of the incentive. Montana workers will not receive training in new production methods on state of the art equipment and will not accrue skills that could benefit them throughout their working life.

**LFD
COMMENT**

The legislature invested \$2.8 million in this program in the 2007 biennium and the Governor is recommending an additional \$8.0 million for the 2009 biennium. The legislature may wish to have information on the desired outcomes of the program before making the decision to invest additional funds. The performance measures and milestones presented by the agency emphasize department staff activities rather than evaluating goals of the program. The type of information that may be useful to the legislature, and is indirectly addressed in performance measures and risks in the above narrative, includes:

- How many new jobs will be created?
- What is the average wage per new job for each project grant?
- How much new investment (i.e. matching funds) resulted from the grants?
- What is the estimated additional local and state tax revenue generated from this program?
- How long will it take the state to recoup its investment via increased tax revenues?

The agency provided the following information with its budget request relating to this program. This information is also included on the department's website for its goals and objectives. It does indicate new jobs and new investment; wage and tax revenue is not reported.

Performance	CY 2005	Plan CY 2006	Plan CY 2007	Plan CY 2008	Plan CY 2009
Job Creation	397	360	360	360	360
Job Training Funds	\$1,985,000	\$1,300,000	\$1,300,000	\$1,300,000	\$1,300,000
Total Project Investment	\$33,272,844	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000

**LFD
COMMENT**

This decision package is a new proposal, not a present law adjustment. The program was funded via a one-time-only appropriation by the 2005 Legislature. State statute requires the executive to present program expansions it wants considered for funding in the new biennium as a new proposal to the next legislature rather than a present law adjustment.

DP 5103 - BRD Main Street HB0002- OTO - The executive budget recommends this program approved by the 2005 Legislature continue for the 2009 biennium. The 2005 Legislature funded the Main Street program using gas tax monies with a one time only appropriation in the last session. The executive budget proposes to switch the fund source to state general fund.

**LFD
COMMENT**

HB 481 passed by the 2005 Legislature established the Main Street program in Montana. The legislation indicates the purpose of the program is to: a) assist communities in restoring and retaining the historic character of their downtown areas and historic commercial districts; b) stimulate business investment, retain business, and promote new business; c) strengthen the local tax base; d) create employment opportunities in downtown areas and historic districts; and e) generally enhance the economic viability of downtown areas and historic districts. The legislature may wish to request information from the executive branch on how it will evaluate progress towards meeting the goals, such as the number of new businesses in a designated main street program area, the occupancy rate of designated main street program areas, and changes in the local tax base.

The agency provided the following information with its budget request relating to this program. This information is also included on the department's website for its goals and objectives. The information does not provide the kind of information the legislature needs to evaluate the program's success. The legislature may also wish to ask the executive to present what they evaluated to determine the program was worth the continued investment.

Performance	FY 2006	Plan FY 2007	Plan FY 2008	Plan FY 2009
Designated Main Street Programs	6	8	10	12
Training & Workshops	6	14	16	16
Training Participants	100	150	205	225
Consulting Visits	3	14	18	20
General Info Sessions	3	15	15	15
Community Updates	6	28	36	36

**LFD
COMMENT**

This decision package is a new proposal, not a present law adjustment. State statute requires the executive to present changes in funding as a new proposal to the next legislature rather than a present law adjustment.

DP 5104 - BRD Made In Montana HB0002- OTO - The executive budget includes \$100,000 general fund annually to continue the Made In Montana program funding initiative designated as one-time-only during the last legislative session. Part of the 2007 biennium appropriation is being used to provide support for the development of the aerospace and bioscience clusters in Montana. The funds are also being leveraged with the US Department of Commerce and the University of Montana to develop and deliver a pilot program of workshops and individual assistance to help Montana companies that sell the majority of their product outside the state of Montana with industrial marketing assistance. The executive budget proposes to continue both of these efforts in the 2009 biennium.

**LFD
COMMENT**

This decision package is a new proposal, not a present law adjustment. The program was funded via a one-time-only appropriation by the 2005 Legislature. State statute requires the executive to present program expansions it wants considered for funding in the new biennium as a new proposal to the next legislature rather than a present law adjustment.

DP 5105 - BRD Tribal Economic Development HB0002 - OTO - The executive budget recommends this program continue and funding increase to approximately \$1.6 million general fund for the 2009 biennium. The 59th Legislature appropriated \$1.0 million general fund for the 2007 biennium to support tribal business development projects, workforce training projects, entrepreneurial training, feasibility studies and other types of Indian economic development activities and projects.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: One of the greatest economic development challenges that Montana faces is capitalizing on or creating opportunities for job creation and economic prosperity on Montana's Indian Reservations and with non-reservation Indians.

According to the 2000 census, there were 65,945 self identified American Indians in Montana, or about 7.3 percent of the total population. The median household income for American Indians was \$22,824, more than ten thousand less than the \$33,024 reported for all Montanan households. Based upon the methodology used, the unemployment rate for reservations in Montana has historically ranged from 15 percent to 30 percent; using the Bureau of Labor Statistics methodology, and from 25 percent to 75 percent using Bureau of Indian Affairs methodology. Whichever methodology is used, these rates are significantly higher than the rest of the state where the current statewide unemployment rate is below 5 percent.

Goals: The goals of this proposal are to fund projects identified by the Tribal governments that meet one or several of the application criteria and, to fund other activities that will have an impact on the prosperity of Indians involved in those projects across the state of Montana. In this way, we will be able to help individuals get hired into permanent full-time jobs, start their own businesses, and improve their economic circumstances.

Performance Measures: The Department of Commerce will use performance measures for each individual project funded that duplicate the kind of information we typically develop for other economic development projects and activities. These will include:

- Jobs created and retained
- New business created or retained
- Wages paid for jobs created and retained
- Other funds leveraged with State funds including private equity, loans, and local, state, and federal funds.

Milestones: Each project funded will have a separate completion timeline depending upon the nature of the project. As an example, the Rocky Boy Reservations applied for and was awarded money to help produce a feasibility study for an ethanol plant. The feasibility study itself would be one of the milestones for the project but our hope is that the study leads to investment and the creation of an ethanol plant employing Indian residents in good paying jobs and, providing farmers with a market for higher value oil seed crops.

FTE: Staff at the Department of Commerce have already designed and implemented the application and proposal review process. Each of the Tribal governments has applied for funding from the department. Staff in the Department of Commerce have initiated and completed contracts with each of the Tribal governments. We are currently in the process of receiving applications for FY 2007.

Funding: The 2005 Legislature appropriated general fund for the one-time-only appropriation for this program and the executive budget recommends general fund for the 2009 biennium.

Obstacles: The proposal has been implemented and we found no significant challenges in doing so. The greatest challenge of all is for the Tribal governments to identify projects that will be successful and result in new, good businesses and jobs for Tribal citizens.

Risks: The risk to the state of Montana in not adopting the proposal is that the economies on Montana's Indian reservations to a greater or lesser degree will continue to lag far behind the rest of the Montana economy. The economic status quo continues to result in high poverty rates and all of the social consequences that come with that condition.

**LFD
COMMENT**

The goal of this program appears to be to improve economic conditions on Montana's Indian reservations. The funds are distributed to Tribal governments that identify projects with good success potential. The performance measures do not identify benchmarks to evaluate success, and the milestones are not specific enough to ensure accountability. Before committing additional funds to this program, the legislature may wish to require more specific performance measures and milestones in order to evaluate the success of this program in the future.

In addition, this program was funded in the 2007 biennium with a \$1.0 million general fund, biennial, one-time-only appropriation of which \$490,979 was expended in FY 2006. Given that the executive has some history with this initiative, the legislature may wish to ask the executive to present what they evaluated to determine the program was worth not only continued investment, but also increased investment in the 2009 biennium.

**LFD
COMMENT**

This decision package is a new proposal, not a present law adjustment. State statute requires the executive to present program expansions as a new proposal to the next legislature rather than a present law adjustment.

DP 5106 - BRD Montana Capital Investment Board HB0002- OTO - The executive budget funds the State Capital Investment Board that was created in SB 133 by the 2005 Legislature. SB 133 gave the board authority to provide contingent, deferred tax credits to enable a funds manager to promote equity capital investments in Montana companies. The executive budget funds the program for the first 18 months of the 2009 biennium from general fund and the last six months from state special revenue generated from fees allowed in SB 133. In FY 2006, \$150,000 is budgeted for anticipated legal costs.

**LFD
COMMENT**

The 2005 Legislature did not appropriate additional funds to implement this bill so there is no history upon which to evaluate the success or failure of this program. The legislature may wish to query the department on how they would plan to evaluate success or failure in the 2009 biennium.

DP 5108 - BRD Federal Grants Adjustment HB0002- OTO - - The executive budget includes a one-time-only federal special appropriation in the amount of \$2,014,785 for FY 2008 only to allow the department to record an accrual for pre-FY 2004 outstanding federal grant awards.

**LFD
ISSUE**

Refer to the FY 2008 OTO Federal Funds Adjustment Requests issue in the agency summary section of this budget analysis.

DP 5109 - BRD Administrative Costs Adjustments HB0002 - The executive budget recommends increases in general fund, state special revenue, and federal special revenue for the following administrative cost adjustments:

- Restore per diem and increase travel for the Economic Development Advisory Council of \$7,618 per year
- Operating increases (supplies, communications, training, and travel) for the Small Business Development Center program, \$13,764 per year
- Increased technical assistance costs and employee training for the Micro Business Finance program, \$75,000 per year
- Increased travel and training costs for the Census and Economic Information Center staff to prepare for the decennial census, \$5,000 per year
- Increased rent and indirect costs, \$63,806 in FY 2008 and \$64,808 in FY 2009

In addition, the executive includes \$2.0 million state special revenue appropriation authority each year to record loans to certified micro business development corporations on the state accounting system.

New Proposals

New Proposals										
Program	FTE	Fiscal 2008				FTE	Fiscal 2009			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 5111 - Tribal Economic Development Commission - HB0002 (Requires Legislation)										
51	1.00	85,657	0	0	85,657	1.00	85,752	0	0	85,752
DP 5112 - BRD - Biomedical Research Grant - Bien/OTO										
51	0.00	2,000,000	0	0	2,000,000	0.00	0	0	0	0
Total	1.00	\$2,085,657	\$0	\$0	\$2,085,657	1.00	\$85,752	\$0	\$0	\$85,752

DP 5111 - Tribal Economic Development Commission - HB0002 (Requires Legislation) - The executive recommends transferring the Tribal Economic Development Commission from the Governor's Office to the Department of Commerce. One FTE and approximately \$86,000 general fund would be added to the Business Resources Division beginning in FY 2008.

LFD COMMENT

Section 90-1-131, MCA establishes this commission and attaches it to the Governor's Office. Moving it to the Department of Commerce would require a statutory change.

LFD ISSUE

Other funds may be available to fund costs of this program

When this commission was first created in FY 1999, the legislature authorized the transfer of \$200,000 general fund into the newly created State Tribal Economic Development state special revenue account. Since then, the costs of the commission have been paid from this account and the original \$200,000 appropriation. In FY 2006, \$27,236 was expended for commission expenses. Section 90-1-135, MCA requires that money remaining in the account be used for the commission. As of the end of November 2006, there was \$78,000 remaining in the account.

The executive is recommending general fund for this program for the 2009 biennium. The legislature may wish to exhaust the funds in the state special revenue account prior to using general fund.

DP 5112 - BRD - Biomedical Research Grant - Bien/OTO - The executive budget recommends a one-time-only, biennial \$2.0 million general fund appropriation for a grant to support innovative biomedical research in Montana. The grant would be used to expand, renovate, and purchase equipment for biomedical research and to expand infrastructure that will enhance the scientific collaborations between independent non-profit researchers and researchers in the Montana University System. Funds would be used by the grantee to leverage additional private or federal funds.

LFD COMMENT

The executive proposal lacks sufficient information for the legislature to evaluate the proposed investment or any continued investment that may be requested in future years. Before committing funds for this project, the legislature may want to obtain and evaluate additional information, such as:

- What is the goal of this investment, and how does it fit into the department's overall mission?
- What performance measures is the executive recommending to evaluate progress towards the goal? Are the performance measures meaningful?
- Who will monitor performance?
- What overall benefit to the taxpayers is inherent in this proposal that it justifies the expenditure of general fund?

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expenses	491,824	277,771	0	769,595	258,176	0	750,000	1,519,595
Total Costs	\$491,824	\$277,771	\$0	\$769,595	\$258,176	\$0	\$750,000	\$1,519,595
State/Other Special	491,824	277,771	0	769,595	258,176	0	750,000	1,519,595
Total Funds	\$491,824	\$277,771	\$0	\$769,595	\$258,176	\$0	\$750,000	\$1,519,595

Program Description

The Montana Promotion Division strives to strengthen Montana's economy through increased visitor travel, visitor expenditures, and film production in the state. The division works to project a positive image of the state through consumer advertising, electronic marketing, publicity, international and domestic group travel marketing, printing and distribution of literature, assisting in the development of tourism infrastructure, and marketing to motion picture and television production companies. The division provides training and assistance to the Montana tourism industry, administers, and distributes infrastructure grants, and oversees expenditures of six regional non-profit corporations and the eleven qualified convention and visitors bureaus.

Montana Promotion Division responsibilities are outlined in Title 15, Chapter 65, and Title 2, Chapter 15, MCA.

Program Highlights

Montana Promotion Division Major Budget Highlights	
♦	Lodging facility use tax, which is statutorily appropriated, is estimated to increase 5.2 percent per year in the 2009 biennium
♦	Private funds budgeted in HB 2 increase over 50 percent annually and increases spending authority to \$750,000 annually
Major LFD Issues	
♦	None

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Montana Promotion Divisi						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
02000 Total State Special Funds	\$ 491,824	100.0%	\$ 769,595	100.0%	\$ 750,000	100.0%
02116 Accommodation Tax Account	1,064	0.2%	19,595	2.5%	-	-
02154 Mt Promotion-Private	490,760	99.8%	750,000	97.5%	750,000	100.0%
Grand Total	\$ 491,824	100.0%	\$ 769,595	100.0%	\$ 750,000	100.0%

The Montana Promotion Division is funded by state special revenues, primarily derived from 67.5 percent of the four percent Montana lodging facility use tax "remaining after statutory deductions" and from private funds. The private funds appropriated in HB 2 and shown in the table above fund numerous private organizations throughout Montana that produce and distribute cooperative advertising and joint promotional activities. This public/private partnership is funded cooperatively with the state and typically receives funding from private partners to develop and distribute targeted marketing efforts. Legislative audit costs are funded in HB 2 from the bed tax. The department's and the regional

tourism corporations' portion distributed via the Department of Commerce is estimated by the Revenue and Transportation Committee to be approximately \$14.7 million in FY 2008 and \$15.5 million in FY 2009. These funds are statutorily appropriated and do not appear in the table.

History

Montana has a seven percent tax on lodging facilities in the state. The total tax is divided into two parts:

- The 1987 Legislature enacted a four percent lodging facility use tax. This tax equals four percent of the rate charged on accommodations and is collected from customers of the facility upon payment. The tax can only be based on the fees charged for lodging and cannot include the costs for meals, transportation, entertainment, or any other similar charges. The revenues are distributed as discussed below.
- The 2003 Legislature enacted a three percent lodging sales & use tax. This tax, imposed for the "privilege of using property or services within this state", is equal to three percent of the rate charged on accommodations. All revenues are deposited to the general fund.

Pursuant to the statement of intent provided by the legislature when it enacted the four percent lodging facility use tax, all proceeds are to be dedicated to the promotion of Montana's travel and tourism industries. Of the total collections, \$400,000 is allocated to the Montana heritage preservation and development account for the purpose of purchasing, restoring, and maintaining historically significant properties in Montana that are in need of preservation. This \$400,000 allocation expires June 30, 2007, barring any legislation that removes or extends this statutory sunset. Additionally, state funds are reimbursed for any lodging facility use tax paid by state employees while on official business, and the Department of Revenue is allowed to keep an amount based on costs of collecting and disbursing the proceeds from the tax (approximately one percent of collections). The remaining tax proceeds are statutorily allocated as follows:

- 67.5 percent to the Department of Commerce
- 22.5 percent to be distributed by the Department of Commerce to regional nonprofit tourism corporations as defined in 15-65-101(6), MCA
- 6.5 percent to the Department of Fish, Wildlife, and Parks for maintenance of facilities in state parts that have both resident and nonresident use
- 2.5 percent to the Commissioner of Higher Education for operation of the Institute for Tourism and Recreation Research at the University of Montana
- 1 percent to the Montana Historical Society to be used for the installation or maintenance of roadside historical signs and historic sites

The 67.5 percent allocation from the statutory appropriation is used by the department to operate the Montana Promotion Division. The division uses this funding in addition to the state special revenue appropriated in HB 2 to promote the travel and tourism industry in Montana. For FY 2007, the Montana Promotion Division has allocated the lodging facility use tax for the following purposes:

- 35 percent for consumer marketing
- 13 percent for tourism development and superhost
- 9 percent for telemarketing and fulfillment
- 9 percent for publications
- 7.5 percent for general administration and industry services
- 7 percent for group conventions and overseas marketing
- 6.5 percent for electronic services
- 6 percent for publicity
- 5 percent for film industry promotion
- 2 percent for visitor information centers

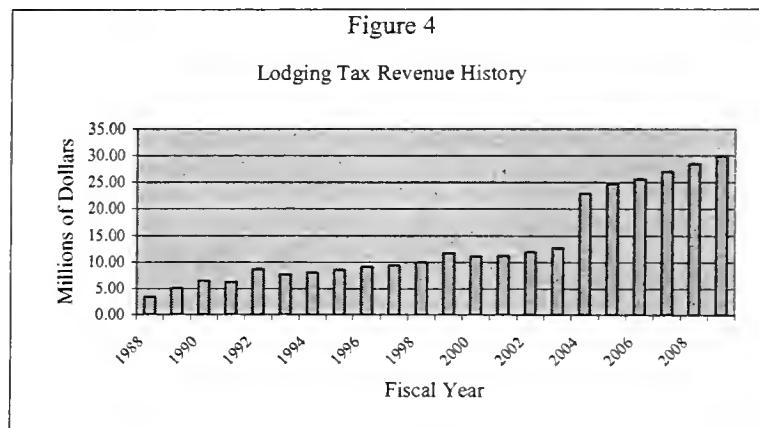
Collection and Distribution

Figure 2 below shows lodging tax collections since the inception of the lodging facility use tax in FY 1988.

Figure 3
Lodging Taxes Distribution
Fiscal 2005 - Fiscal 2009

	Distribution Basis	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Total Lodging Tax Revenue (Net of state agency refunds)		\$24,636,260	\$25,519,386	\$26,979,000	\$28,393,000	\$29,881,000
Department of Revenue	(Administration costs)	\$141,371	\$29,122	\$149,981	\$149,107	\$154,480
General Fund	100% of Lodging Sales Tax	10,200,914	10,679,216	11,290,000	11,881,000	12,504,000
MT Heritage Preservation & Development	Fixed	400,000	400,000	400,000	0	0
Net Facility Use Tax for Distribution		\$13,893,975	\$14,411,048	\$15,139,019	\$16,362,893	\$17,222,520
Historical Society	1% of net	\$138,940	\$144,110	\$151,000	\$164,000	\$172,000
Higher Education	2.5% of net	347,349	360,276	378,000	409,000	431,000
Fish, Wildlife, & Parks	6.5% of net	903,108	936,718	984,000	1,064,000	1,119,000
Department of Commerce						
For Department Use	67.5% of net	9,378,433	9,727,457	10,219,000	11,045,000	11,625,000
For Distribution to Regions and Cities	22.5% of net	3,126,144	3,242,486	3,406,000	3,682,000	3,875,000

Additionally, Figure 4 shows the actual and estimated lodging tax distribution from FY 2005 to FY 2009.



For several biennia the legislature has included language in HB 2 directing the Department of Commerce to use a portion of the department's lodging facility use tax allocation for programs in the Montana Historical Society. The executive proposes similar language for the 2009 biennium but reduces the recommended amount from \$1.24 million in the 2007 biennium to \$0.91 million for the 2009 biennium. See the LFD Issue in Volume 7, Section E – Education under the Montana Historical Society for a discussion of this transfer.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2008						Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Fixed Costs				18,531					(1,064)	
Total Statewide Present Law Adjustments				\$18,531					(\$1,064)	
DP 5201 - MPD Private Funds & Audit Adjustments HB0002										
0.00	0	259,240	0	259,240	0.00	0	259,240	0	259,240	
Total Other Present Law Adjustments										
0.00	\$0	\$259,240	\$0	\$259,240	0.00	\$0	\$259,240	\$0	\$259,240	
Grand Total All Present Law Adjustments				\$277,771					\$258,176	

DP 5201 - MPD Private Funds & Audit Adjustments HB0002 - The executive budget adds \$259,240 state special revenue authority each year of the 2009 biennium to increase the program's private funds account to \$750,000 annually. In addition, the executive includes \$18,531 additional bed tax revenue to fund the division's share of legislative audit costs.

**LFD
COMMENT**

Private funds from cooperative marketing agreements deposited to the Montana promotion division private state special revenue fund totaled \$490,087 in FY 2006. The private revenue has not exceeded \$600,000 since FY 2002 and has averaged \$537,710 for the last five years. If the legislature approves the executive budget request, it may wish to establish a restricted appropriation for these private funds so unused authority, if any, reverts at the end of the year.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	13.00	0.00	2.00	15.00	0.00	2.00	15.00	15.00
Personal Services	671,499	36,697	108,646	816,842	38,756	108,790	819,045	1,635,887
Operating Expenses	440,619	110,525	57,380	608,524	103,926	57,380	601,925	1,210,449
Equipment	0	0	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	6,615,355	10,702,227	0	17,317,582	(137,660)	0	6,477,695	23,795,277
Total Costs	\$7,727,473	\$10,849,449	\$166,026	\$18,742,948	\$5,022	\$166,170	\$7,898,665	\$26,641,613
General Fund	224,022	28,204	166,026	418,252	26,261	166,170	416,453	834,705
State/Other Special	1,262,408	1,994,137	0	3,256,545	(6,012)	0	1,256,396	4,512,941
Federal Special	6,241,043	8,827,108	0	15,068,151	(15,227)	0	6,225,816	21,293,967
Total Funds	\$7,727,473	\$10,849,449	\$166,026	\$18,742,948	\$5,022	\$166,170	\$7,898,665	\$26,641,613

Program Description

The Community Development Division works with federal, state, and local governments, private non-profit organizations, and private citizens, in regard to community planning and needs identification, planning and financing for the construction of public facilities, housing development for low and moderate income families, neighborhood revitalization, and coal and hard rock mining mitigation, as well as management of projects funded through division programs.

There are two major programs directly administered by the division: The Community Development Block Grant Program (CDBG), and the Treasure State Endowment Program (TSEP). The Montana Coal Board and the Montana Hard Rock Mining Impact Board are also attached to the Community Development Division for administrative purposes. The division provides office facilities and necessary staff and administrative support for the boards.

These four programs provide both financial and technical assistance to Montana communities, local elected officials and staff, nonprofit organizations, private sector developers and consultants, state and federally-recognized Indian Tribes, and private citizens. Other assisted entities include local planning boards and zoning commissions, community development corporations, human resource development councils, water and sewer districts, fire departments, and housing authorities.

The Community Development Division's responsibilities are primarily mandated in Title 90, Chapter 1 and Chapter 6, MCA; and federal authorizations 24 CFR 570, subpart 1; and 42 USC 5301.

Program Highlights

Community Development Division	
Major Budget Highlights	
◆	Executive increases the overall budget 72 percent in the 2009 biennium from the doubled FY 2006 base year
•	The Governor proposes to revive the Community Technical Assistance Program at a biennial general fund cost of \$332,196
•	Increased state special revenue authority for Coal Board and Hard Rock Mining Impact grants adds \$1.7 million in the 2009 biennium
•	OTO \$8.8 million federal appropriation in FY 2008 would allow the department to record an expenditure accrual for pre-2004 outstanding federal community development block grant funds

Major LFD Issues

- ◆ The legislature may wish to restrict hard rock mining impact trust fund appropriations due to statutory restrictions and uncertain revenues

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Community Development Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ 224,022	2.9%	\$ 418,252	2.2%	\$ 416,453	5.3%
01100 General Fund	224,022	2.9%	418,252	2.2%	416,453	5.3%
02000 Total State Special Funds	1,262,408	16.3%	3,256,545	17.4%	1,256,396	15.9%
02049 Hard Rock Mining	237,277	3.1%	644,611	3.4%	644,445	8.2%
02270 Treasure State Endowment	510,090	6.6%	525,233	2.8%	525,608	6.7%
02511 Coal Board Account	515,041	6.7%	2,086,701	11.1%	86,343	1.1%
03000 Total Federal Special Funds	6,241,043	80.8%	15,068,151	80.4%	6,225,816	78.8%
03059 Community Development Block	6,241,043	80.8%	15,068,151	80.4%	6,225,816	78.8%
Grand Total	\$ 7,727,473	100.0%	\$ 18,742,948	100.0%	\$ 7,898,665	100.0%

The total budget for this division increases 72 percent in the 2009 biennium from the doubled FY 2006 base. The executive budget provides an 87 percent increase in general fund from FY 2006 to FY 2008 stemming from the executive recommendation to restore the Community Technical Assistance Program in the 2009 biennium and fund it from the general fund. The base amount of general fund in this division provides a required match for a portion of the administrative costs of the Community Development Block Grant program.

The executive budget funds the Coal Board from the oil, gas, and coal natural resource account established by the 2005 Legislature through HB 758. This account receives revenue from a 2.9 percent allocation from the coal severance tax and an allocation from oil and gas production taxes. State law directs how the oil and gas production taxes may be spent (the Department of Revenue distributes these taxes to the counties), but there is no statutory restriction on how the 2.9 percent allocation from the coal severance tax may be spent. In the 2007 biennium, the legislature appropriated these funds to the Coal Board. FY 2006 actual expenditures totaled \$535,000. For the 2009 biennium, the interim Revenue and Transportation Committee estimates the coal severance tax revenue to this account will total \$2.14 million and the executive recommends the Coal Board budget total \$2.17 million.

The Hard-Rock Mining Impact Board is funded by a 2.5 percent allocation of the Metalliferous Mines License Tax. Revenue to this account is projected to total \$0.81 million for the 2009 biennium, an approximate 15 percent increase from the 2007 biennium.

The Treasure State Endowment Program is funded by interest earnings from the treasure state endowment fund, a sub-fund within the coal tax trust fund. Fifty percent of the coal severance taxes that go into the coal tax trust fund are to be transferred to the treasure state endowment fund for a 23-year period, which began in 1993.

Federal special revenue includes the community development block grant funds. The large increase between FY 2006 and FY 2008 is attributable to the executive recommendation to allow the agency to accrue pre-2004 outstanding grant funds. See DP 6002 for more information.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
Fiscal 2008					Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				64,230					66,370
Vacancy Savings				(29,433)					(29,514)
Inflation/Deflation				1,750					1,882
Fixed Costs				957					(5,600)
Total Statewide Present Law Adjustments				\$37,504					\$33,138
DP 6002 - CDD CDBG Federal Grants Adjustment HB0002									
0.00	0	0	8,839,887	8,839,887	0.00	0	0	0	0
DP 6004 - CDD Administrative Costs Adjustments HB0002									
0.00	1,412	1,969,234	1,412	1,972,058	0.00	1,351	(30,817)	1,350	(28,116)
Total Other Present Law Adjustments									
0.00	\$1,412	\$1,969,234	\$8,841,299	\$10,811,945	0.00	\$1,351	(\$30,817)	\$1,350	(\$28,116)
Grand Total All Present Law Adjustments				\$10,849,449					\$5,022

DP 6002 - CDD CDBG Federal Grants Adjustment HB0002 - The executive budget recommends a one-time-only federal special revenue appropriation for \$8,839,887 in FY 2008 only, to allow the department to record an expenditure accrual for pre-2004 outstanding federal grant awards.

**LFD
ISSUE**

Refer to the FY 2008 OTO Federal Funds Adjustment Requests issue in the agency summary section of this budget analysis.

DP 6004 - CDD Administrative Costs Adjustments HB0002 - The executive budget includes the following adjustments:

- 1) Per diem for the Coal Board and the Hard Rock Mining Impact Board -- \$3,600 for the biennium;
- 2) Maintenance of the hard rock mining impact account reserve as required by Section 90-6-304(2), MCA -- \$200,000 for the biennium;
- 3) Increased local grants from Coal Board and Hard Rock Mining Impact Board funds -- \$1.72 million for the biennium; and
- 4) Increased rent; and indirect costs paid to the Director's Office/Management Services Division for support services provided to supported Divisions, Bureaus, and Programs -- \$15,462 for the biennium.

**LFD
ISSUE**

Section 90-6-304(2), MCA requires the department maintain a \$100,000 reserve in the hard rock mining impact trust account. The reserve may be used only for board expenses under certain conditions listed in statute. The legislature may want to consider restricting the appropriation for uses specified in statute.

**LFD
COMMENT**

The executive budget recommends \$300,000 additional state special revenue each year for anticipated increases in hard rock mining impact funds distributed to local governments. The distribution to local governments for the last five years is listed below:

- o FY 2002 - \$16,916
- o FY 2003 - \$18,248
- o FY 2004 - \$39,356
- o FY 2005 - \$148,171
- o FY 2006 - \$168,861

The amount of this recommendation is an estimate only. In addition, the official revenue estimates adopted by the Revenue and Taxation Committee indicate the revenue to the hard rock mining impact trust account may be less than the amount allocated in the executive budget. The legislature may wish to consider restricting the appropriation authority for local grants. This would allow the department to have the grant authority available for local grants if needed and would also prevent the authority from being transferred to other programs and used for other purposes.

New Proposals

New Proposals										
Program	FTE	Fiscal 2008				FTE	Fiscal 2009			
		General Fund	State Special	Federal Special	Total Funds		General Fund	State Special	Federal Special	Total Funds
DP 6001 - CDD Community Technical Assistance Program HB0002										
60	2.00	166,026	0	0	166,026	2.00	166,170	0	0	166,170
Total	2.00	\$166,026	\$0	\$0	\$166,026	2.00	\$166,170	\$0	\$0	\$166,170

DP 6001 - CDD Community Technical Assistance Program HB0002 - The executive budget recommends restoration of the Community Technical Assistance Program (CTAP) at a biennial general fund cost of \$332,196. This funding would be used to hire two FTE to provide technical assistance and training in growth policies, subdivision laws, subdivision review, zoning laws, and zoning administration to local government elected officials, citizen planning board members, zoning commissions, land developers, and engineers.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: State law (90-1-103, MCA) requires the department cooperate with and provide technical assistance to county, municipal, state, and regional planning commissions, zoning commissions, parks or recreation boards, community development groups, community action agencies, and similar agencies created for the purposes of aiding and encouraging orderly, productive, and coordinated development of the communities of the state.

The 2003 Legislature eliminated the department's CTAP. The period from July 1, 2003 to-date is the only time since the mid-1950's that the state has not provided some level of technical assistance to counties, cities, and towns with community planning and land use regulation issues.

Many of Montana's local governments face serious problems due to rapid growth and development. Local governments must deal with continual turn over in local officials, planning staff, and planning board members and there is a need for on-going training and education to help local governments deal with the difficulties involved in preparing mandated growth policies and in administering a complex state subdivision law and local subdivision regulations, as well as local zoning regulations.

Goal: Re-establish the former Community Technical Assistance Program to provide technical assistance and training to

local governments and their planning boards and zoning commissions, private sector developers, engineers, and consultants to encourage the development of well planned and attractive communities to support the state's economic development and community development efforts.

Performance Criteria: If a community planning assistance program were re-established, training and technical assistance would be provided primarily by telephone and internet communication, periodic regional workshops, by maintaining a library of sample growth policies and land use regulations available for loan or downloading via the Internet, and by preparing handbooks, model regulations, and reference materials that could be downloaded from the department's website. The Department of Commerce has an inventory of previously prepared technical assistance publications that need to be updated to reflect changes in state law and current community planning best practices. Progress would be measured by the number of inquiries responded to, publications updated or prepared, workshops held, etc.

Currently, Montana has several state agencies and private organizations independently provide training and technical assistance to local governments related to community development, planning, and land use regulation, without coordination with each other. The re-established CTAP would propose to establish a working group, comprised of state and federal agencies and private non-profit organizations, to help coordinate technical assistance to local governments.

Milestones: Some of the key activities would have specific time-frames for completion, such as updating existing technical assistance handbooks, model regulations, and reference materials to reflect current state law and best practices. These would be scheduled for completion based on priorities set by the CTAP staff, in consultation with the Montana Association of Counties and the League of Cities and Towns.

Many of the other activities would be on-going functions of CTAP such as providing technical assistance by telephone and internet communication, periodic regional training workshops, and maintaining a library of sample growth policies and land use regulations available for loan.

FTE Requirements: The work would be performed by two new FTEs: an attorney and a senior planner.

Funding: Funding would be provided by state general fund.

Obstacles: One challenge would be to recruit qualified, experience staff under the state pay plan. Experienced local planners currently receive premium salaries in today's job market. However, re-establishing CTAP should be somewhat easier because several staff in the Community Development Division worked either formerly as local planners or as CTAP staff or both.

Risks: If CTAP is not re-established, local governments and the private development community (surveyors, engineers, and realtors) will continue to encounter confusion and delay due to misunderstandings about the state subdivision law and local subdivision regulations. Local governments and their planning staff and planning boards will continue to have misunderstandings and confusion regarding implementation of the state growth policy law and Montana zoning laws. Compliance with these laws and regulations is particularly difficult for local governments without any experienced professional staff to turn to.

**LFD
COMMENT**

The underlying policy goal of this proposal is the development of well planned and attractive communities to support the state's economic development and community development efforts. The performance criteria proposed in the executive budget addresses staff activities rather than criteria the legislature can use to evaluate whether the policy goal is being achieved. The legislature may want to ask the department to identify and use performance measures that would more meaningfully evaluate progress towards the policy goal, such as compliance with subdivision, zoning, and growth policy statutes. The risk statement implies there may be instances of non-compliance with the law due to confusion, etc. The legislature may wish to ask the department to demonstrate there have been instances of non-compliance before deciding on this decision package.

Proprietary Rates**Program Description**

The Facility Finance Authority was created by the 1983 Legislature to assist health care and related facilities in containing future health care costs by offering debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. The legislature extended eligible facilities to include community pre-release centers. Cost savings are shared with consumers in the form of lower fees.

The Facility Finance Authority is funded entirely by proprietary funds (enterprise accounting entities 06012 and 06015) with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

Customers include health care and related facilities, entities serving persons with development and/or mental disabilities, and prerelease/methamphetamine treatment centers.

There has not been any significant program, service, or customer base change since the last session.

The authority is primarily mandated in Title 90, Chapter 7 and Title 2, Chapter 15, MCA.

Mission:

To develop and maintain statewide financing programs which provide for and maintain access to the broadest range of low-cost capital financings as possible for eligible non-profit private and public institutions, which will promote affordable access to and availability of services for the consumer.

Goals and Objectives:

- To maintain and improve current financing programs while developing new funding options.
- To develop and implement effective financing plans for under served borrowers by pursuing financing options for critical access Hospitals and “bank eligibility.”
- To promote a greater understanding and utilization of the authority financing programs by participating in, sponsoring and speaking at conferences and disseminating information to clients and new administrators.
- To provide resources for the advancement of tax-exempt financing on a national level by serving on committees of national organizations and meeting with congressional representatives.

Revenue Description:

The Facility Finance Authority is funded entirely by enterprise proprietary funds with revenues collected from interest, fees, and charges from participating institutions. There are no direct appropriations provided in HB 2.

The authority has gradually reduced its application and annual administrative fee assessments contingent upon its business volume. Customer volume is assumed to be at the current level throughout the 2009 biennium.

Expense Description:

The major cost drivers within the Facilities Finance Authority are personal services, operating expenses, grants, and expenditures related to the periodic replacement of computer equipment.

Non-typical and one time only expenses, if any, are subtracted from any proposed budgets. Personal services expenditures fund 2.00 FTE and board member per diem.

Working Capital Discussion:

The 60 day working capital calculation is not reasonably applicable to the authority because national bond rating agencies, national bond insurers, and institutional investors expect the authority to reserve two years operating capital (approximately \$664,678) to assure that the authority can financially operate between legislative sessions.

Fund Equity and Reserved Fund Balance:

The total fund equity requirement for the 2009 biennium (\$6,000,000) is derived from the following authority program reserve mandates:

- 56. Biennium Working Capital Reserve; \$664,678
- 57. Capital Reserve Account (Loan Loss Reserve); \$4,723,031
- 58. Facility Direct Loan Program Reserve; \$1,033,100

Proprietary Rate Explanation

The Facilities Finance Authority is funded by two enterprise funds with revenues derived from interest, fees, and charges from participating institutions. The legislature does not approve rates for this program and there are no direct appropriations provided in HB 2. Facility Finance Authority customers are outside of state government. The fee structure that is proposed does not materially vary from that proposed in the last session.

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Fund	Fund Name	Agency #	Agency Name	Program Name						
6012	HFA Loan Program	65010	Dept. of Commerce	Facility Finance Authority						
6015	Facilities Finance Authority									
					Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:										
Fee revenue										
	Administrative Fees				311,840	280,199	443,876	326,000	345,000	340,000
	Investment Earnings				40,092	62,299	103,475	50,000	135,000	135,000
	Securities Lending Income				-	-	1,430	-	-	-
	Premiums				-	-	-	-	-	-
	Other Operating Revenues				-	-	-	-	-	-
	Total Operating Revenue				351,932	342,498	548,781	376,000	480,000	475,000
Operating Expenses:										
	Personal Services				153,557	149,249	162,582	140,816	153,915	155,340
	Other Operating Expenses				118,538	127,148	160,863	149,810	182,922	172,501
	Total Operating Expenses				272,095	276,397	323,445	290,626	336,837	327,841
	Operating Income (Loss)				79,837	66,101	225,336	85,374	143,163	147,159
Nonoperating Revenues (Expenses):										
	Gain (Loss) Sale of Fixed Assets				-	-	-	-	-	-
	Federal Indirect Cost Recoveries				-	-	-	-	-	-
	Other Nonoperating Revenues (Expenses)				-	-	-	-	-	-
	Net Nonoperating Revenues (Expenses)				-	-	-	-	-	-
	Income (Loss) Before Operating Transfers				79,837	66,101	225,336	85,374	143,163	147,159
	Contributed Capital				-	-	-	-	-	-
	Operating Transfers In (Note 13)				-	-	200,000	-	-	-
	Operating Transfers Out (Note 13)				-	-	(200,000)	-	-	-
	Change in net assets				79,837	66,101	225,336	85,374	143,163	147,159
	Total Net Assets- July 1 - As Restated				2,338,258	2,418,095	2,484,196	2,709,532	2,794,906	2,938,069
	Prior Period Adjustments				-	-	-	-	-	-
	Cumulative effect of account change				-	-	-	-	-	-
	Total Net Assets - July 1 - As Restated				2,338,258	2,418,095	2,484,196	2,709,532	2,794,906	2,938,069
	Net Assets- June 30				2,418,095	2,484,196	2,709,532	2,794,906	2,938,069	3,085,228
60 days of expenses										
	(Total Operating Expenses divided by 6)				45,349	46,066	53,908	48,438	56,140	54,640
Requested Rates for Enterprise Funds										
Fee/Rate Information										
Application Fee:										
	Loan Amount			Fee						
	Up to \$5,000,000			30 basis points (bp) (.0030)						
	Up to \$10,000,000			the > of 25 bp or \$ 15,000						
	Up to \$25,000,000			the > of 15 bp or \$ 25,000						
	Up to \$50,000,000			the > of 12.5 bp or \$ 37,500						
	Up to \$100,000,000			the > of 7.5 bp or \$ 62,500						
	Over \$100,000,000			the > of 6.5 bp or \$ 75,000						
Annual Fee:										
	Stand Alone Bond Issues			5 bp X the outstanding principal amount						
	Private Placement bond issues			5 bp X the outstanding principal amount						
	Trust Fund Loan Program			5 bp X the outstanding principal amount						
	Master Loan Program			10 bp X the outstanding principal amount						
Authority: Fee revenues: 90-7-202 and 90-7-211, MCA; Investment Earnings: 90-7-202, MCA										

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	5.50	0.00	1.00	6.50	0.00	1.00	6.50	6.50
Personal Services	265,760	11,443	42,471	319,674	12,782	42,516	321,058	640,732
Operating Expenses	171,997	4,395	1,511,366	1,687,758	(75)	1,507,891	1,679,813	3,367,571
Equipment	0	0	0	0	0	0	0	0
Local Assistance	0	0	0	0	0	0	0	0
Grants	5,440,847	5,434,938	0	10,875,785	200,000	0	5,640,847	16,516,632
Benefits & Claims	0	0	0	0	0	0	0	0
Transfers	0	0	3,000,000	3,000,000	0	0	0	3,000,000
Total Costs	\$5,878,604	\$5,450,776	\$4,553,837	\$15,883,217	\$212,707	\$1,550,407	\$7,641,718	\$23,524,935
General Fund	0	0	3,053,837	3,053,837	0	50,407	50,407	3,104,244
State/Other Special	0	0	1,500,000	1,500,000	0	1,500,000	1,500,000	3,000,000
Federal Special	5,878,604	5,450,776	0	11,329,380	212,707	0	6,091,311	17,420,691
Total Funds	\$5,878,604	\$5,450,776	\$4,553,837	\$15,883,217	\$212,707	\$1,550,407	\$7,641,718	\$23,524,935

Program Description

The Housing Division established on July 1, 1995, consolidated housing programs within the Department of Commerce into one division. The division includes:

- The Board of Housing, a seven-member, quasi-judicial board appointed by the Governor and administratively attached to the Department of Commerce. The board administers the Low-Income Housing Tax Credit, Multi-Family Loan, Reverse Annuity Mortgage, and Single Family Programs
- The Housing Assistance Bureau, comprised of three programs:
 - The HOME program provides grant funds to eligible government entities and Community Housing Development Organizations for assistance in financing new construction or rehabilitation of individual homes or rental units, tenant based rental assistance, and other eligible activities
 - The Housing and Urban Development (HUD) project based Section 8 program provides rental assistance to projects at fixed locations. The department earns fees from HUD under a performance-based contract for the tasks performed
 - The HUD tenant based Section 8 program provides rent assistance for very low income families, including elderly and disabled. Leases are entered on the open rental market between tenants and private landlords. The program makes a subsidy payment to the property owner on behalf of the tenant.

The operating budgets for the Board of Housing and the two Section 8 programs are funded by enterprise funds and are not included in the program proposed budget table above or in HB 2.

Housing Division responsibilities are mandated primarily in Title 2, Chapter 15; Title 90, Chapter 1, and Chapter 6, MCA; 24 CFR 91, and 92; 24 CFR 5, 792, 813, 887, 982, and 984; and the Governor's Executive Order 27-81.

Program Highlights

Housing Division Major Budget Highlights	
♦	Executive increases the division budget 100 percent
♦	New pilot project to replace pre-HUD code manufactured homes <ul style="list-style-type: none"> • \$3 million state special revenue fund to establish a revolving loan for the program • \$3 million OTO general fund seed money to fund the revolving loan • \$100,000 general fund added to the base for administration
♦	OTO \$5.4 million federal appropriation in FY 2008 would allow the department to record an expenditure accrual for pre-2004 outstanding federal grant funds
Major LFD Issues	
♦	Proposed pilot project lacks clear definition of intended results, making determination of success difficult

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Housing Division						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
01000 Total General Fund	\$ -	-	\$ 3,053,837	19.2%	\$ 50,407	0.7%
01100 General Fund	-	-	3,053,837	19.2%	50,407	0.7%
02000 Total State Special Funds	-	-	1,500,000	9.4%	1,500,000	19.6%
02575 Mobile Home Revolving Loan Fund	-	-	1,500,000	9.4%	1,500,000	19.6%
03000 Total Federal Special Funds	5,878,604	100.0%	11,329,380	71.3%	6,091,311	79.7%
03110 Hud Comprehensive Counseling	69,384	1.2%	270,000	1.7%	270,000	3.5%
03300 Home Grants	5,809,220	98.8%	11,059,380	69.6%	5,821,311	76.2%
Grand Total	\$ 5,878,604	100.0%	\$ 15,883,217	100.0%	\$ 7,641,718	100.0%

In the 2007 biennium, HB 2 appropriations support the HOME program with an annual categorical federal grant from HUD. Grant funds are distributed, using a competitive process, to successful local governments and Community Housing Development Organizations with an allowed amount being held back at the state level to administer the program.

Beginning in the 2009 biennium, the Governor proposes a \$3.0 million one-time-only general fund appropriation for a pilot project that would finance the replacement of pre-HUD Code (1976) owner occupied manufactured housing. The general fund appropriation would be transferred to a state special revenue fund that would be used as a revolving loan fund. Ongoing general fund is also included in the executive budget for administrative costs of the pilot project. Both the general fund appropriation and the state special revenue appropriation would be included in HB 2.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
	Fiscal 2008					Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					22,993					24,387
Vacancy Savings					(11,550)					(11,605)
Inflation/Deflation					424					451
Fixed Costs					1,201					(3,300)
Total Statewide Present Law Adjustments					\$13,068					\$9,933
DP 7401 - HD Federal Grants Adjustment HB0002-OTO	0.00	0	0	5,434,938	5,434,938	0.00	0	0	200,000	200,000
DP 7409 - HD Administrative Costs Adjustments HB0002	0.00	0	0	2,770	2,770	0.00	0	0	2,774	2,774
Total Other Present Law Adjustments	0.00	\$0	\$0	\$5,437,708	\$5,437,708	0.00	\$0	\$0	\$202,774	\$202,774
Grand Total All Present Law Adjustments					\$5,450,776					\$212,707

DP 7401 - HD Federal Grants Adjustment HB0002-OTO - The executive budget recommends federal grant authority in the Housing Division be adjusted as follows: 1) increase federal appropriations \$200,000 per year for anticipated increased funding for the HUD Comprehensive Home Buyer Counseling program; and 2) include a one-time-only federal special appropriation (OTO) in the amount of \$5,234,938 for FY 2008 only to allow the department to record an accrual for pre-FY 2004 outstanding federal grant awards.

**LFD
ISSUE**

Refer to the FY 2008 OTO Federal Funds Adjustment Requests issue in the agency summary section of this budget analysis.

DP 7409 - HD Administrative Costs Adjustments HB0002 - The executive adds \$5,544 in the 2009 biennium for built in two percent annual lease adjustment per terms of lease.

New Proposals

New Proposals										
Program	Fiscal 2008					Fiscal 2009				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 7411 - HD Manufactured Home Renovation Program - OTO										
74	1.00	3,053,837	0	0	3,053,837	1.00	50,407	0	0	50,407
DP 7412 - HD Manufactured Home Renovation Program SSR Approp										
74	0.00	0	1,500,000	0	1,500,000	0.00	0	1,500,000	0	1,500,000
Total	1.00	\$3,053,837	\$1,500,000	\$0	\$4,553,837	1.00	\$50,407	\$1,500,000	\$0	\$1,550,407

DP 7411 - HD Manufactured Home Renovation Program - OTO - The executive budget recommends formation of a pilot project to provide safe, decent, energy efficient, and affordable replacement housing and decommission pre-HUD Code (1976) owner occupied manufactured housing. The strategy for accomplishing this goal would be to finance the replacement and decommissioning of individual pre-HUD Code manufactured homes with terms and conditions that assure affordability. The executive recommends a one-time-only \$3.0 million general fund appropriation that would be deposited to a state special revenue fund to establish a revolving loan fund. The executive budget includes an on-going general fund appropriation for program administration costs, totaling \$104,244 in the 2009 biennium.

The Governor proposes the following outcome indicators for this pilot project:

- Assist 120 to 200 Montana families with:
 - Decent safe housing
 - Lower energy bills
 - Appreciating asset developed for household
- Allow other energy programs to be used for other housing types
- Remove a continuing blight problem of recirculating poor quality mobile homes
- Provide access to traditional forms of lower cost financing

**LFD
ISSUE**

Lack of Long Term Goal

The proposal does not indicate the long term goal of this pilot project nor the long term funding estimate to achieve the long term goal.

The stated goal for this proposal is to provide safe, decent, energy efficient and affordable replacement housing and decommission pre-HUD code owner occupied housing. Justification for this program indicates that nearly 29,000 mobile/manufactured homes in Montana, approximately 42 percent of total manufactured homes in Montana, are pre-HUD code. If 100 families are assisted each year, it would take decades to replace all of the homes. The proposal does not indicate if the long term goal is to assist in the replacement of all pre-HUD code manufactured homes in Montana or just a portion of the homes.

If the long term goal is to assist in the replacement of all pre-HUD code manufactured homes in Montana, it would take substantially more than the proposed \$3.0 million one time only appropriation to make meaningful progress towards goal. If the long term goal is to assist in the replacement of a portion of pre-HUD code manufactured homes in Montana, then what parameters will be used to shrink the pool from approximately 29,000 to a portion of that amount?

The legislature may want to seek answers to the following questions as it deliberates this new proposal:

1. What is the long term goal for this program?
2. What would define success for this program?
3. What is the estimated cost to achieve the long term goal?
4. Is the long term goal realistic?
5. What quantifiable and meaningful performance indicators should the legislature use to evaluate this program?

DP 7412 - HD Manufactured Home Renovation Program SSR Approp - This decision package accompanies DP 7411 and is the state special revenue appropriation for the revolving loan fund.

Proprietary Program Description

Montana Board of Housing

The Montana Housing Act of 1975 created the Montana Board of Housing. The board is an agency of the state and operates within the Department of Commerce for administrative purposes. The powers of the board are vested in a seven member board, appointed by the Governor, subject to the confirmation of the State Senate. The board provides policy direction to the agency staff, authorizes bond issues, approves development financing, and evaluates Board of Housing Programs. These programs include the Homeownership Program, Multifamily Loan Programs, Low Income Housing Tax Credit Program, Housing Revolving Loan Fund, and the Reverse Annuity Mortgage (RAM) Program.

The Board of Housing is funded by four enterprise funds (accounting entities 06030, 06031, 06078, and 06079) with revenues derived from an administrative charge applied to projects and mortgages financed. As such, the legislature does not approve rates for this program. There are no direct appropriations provided in HB 2.

There has not been any significant program, service, or customer base change since the last session. The Board of Housing is primarily mandated in Title 2, Chapter 15; and Title 90, Chapter 1, and Chapter 6, MCA.

Proprietary Revenues and Expenses

The Single Family program earns the bulk of its income from the spread between the interest yield on the Single Family Mortgage loans and the yield on the bonds. The board is allowed to earn 1 ½ percent on Pre 1980 Single Family Programs and 1 1/8 percent on the Post 1980 Single Family Programs.

The board also charges a cancellation fee of 1/2 of 1 percent of the loan amount reserved. Approximately 5 percent of loans reserved are cancelled. These fees are capitalized and are amortized as income over the life of the loans, as required by generally accepted accounting principles. Extension fees and late fees are also charged. The majority of these fees are capitalized and amortized over the life of the loans. The extension fees are 1/4 of 1 percent of the loan amount and the late fees are 1/2 of 1 percent of the loan amount. The amortization of these fees results in an average of approximately \$250,000 of income per year. These fees are deposited with the trustees and are used to originate new mortgages.

The board charges 4.5 percent of the amount of tax credit reserved for Low Income Housing Tax Credits, and also charges \$25.00 per unit for compliance fees. Tax credit fees are charged to cover the operating expenses of the program.

Expenses Description

Operations for the 2009 biennium are anticipated to be approximately \$3.9 million for FY 2008 and \$3.8 million for FY 2009. The operations of the board include purchasing mortgage loans, receiving repayments and prepayments, investing funds, issuing and redeeming bonds. During FY 2006, the board purchased \$153.0 million in mortgages and received \$142.0 million in mortgage repayments, prepayments, and interest. The board issued \$155.0 million in new bonds and paid \$49.0 million in bond interest and principal. The board employs 21.5 FTE.

Working Capital Discussion:Collection Of Mortgage Payments & Purchase Of Loans:

Each month the board receives funds from the financial institutions that service the board's Single Family and Multifamily loans. The funds include the amount of principal, interest, less servicing fees (.375%, .125% and .10% of the principal balance) that are due on the board's loans. The board's trustees collect the money. Twice monthly, the board purchases loans from new bond proceeds, prepayments or other revenues.

The board receives tax credit reservations fees when the tax credits are approved. These fees are deposited with the state treasurer and are used to cover expenses of the program. Reservations fees on the Single Family and Multifamily Programs are deposited with the trustees when the approved loans are reserved. They are deposited in the program acquisition account and are used to originate new mortgages.

Payment of Bond Debt

Principal and interest, on the Multifamily and Single Family Bond issues, is due on each February 1, June 1, August 1, and December 1. Scheduled debt payments for 2007 are \$50,624,869; 2008 are \$52,049,419; and 2009 are \$52,819,204.

Investments

The deposit of the initial bond proceeds, used for purchasing loans, is normally invested in a fixed-rate guaranteed investment contract. All debt service reserve funds and mortgage reserve funds that must be held as security for the bondholders are invested in long-term securities, repurchase agreements or guaranteed investment contracts. Under the Multifamily Program, the funds are invested to the next debt service date or to a loan purchase date.

Other Mortgage Purchases

The board purchases reverse annuity mortgages (RAM). The RAM loans are not repaid until the borrower dies or sells their home. These amounts are assets of the board and the interest is accrued monthly, but we may not receive the principal and interest repayments for many years.

The board also purchases out of the Housing Revolving Loan Program. These loans can be due on sale or amortizing. These amounts are assets of the board and the interest is accrued monthly.

2009 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Agency Name	Program Name
6030	BOH Financial			
6031	Housing Trust			
6078	Affordable	65010	Dept. of Commerce	Housing Division - Board of Housing
6079	Revolving Loan			

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Administrative Fees	214,712	219,123	380,599	225,000	225,000	225,000
Investment Earnings	6,184,387	10,967,626	6,620,427	6,750,000	7,020,000	7,300,800
Securities Lending Income	-	-	610	1,000	1,000	1,000
Premiums	-	-	-	-	-	-
Other Operating Revenues	36,389,535	37,275,124	38,740,558	53,325,399	64,358,940	75,101,674
Total Operating Revenue	42,788,634	48,461,873	45,742,194	60,301,399	71,604,940	82,628,474
Operating Expenses:						
Personal Services	828,467	940,524	978,777	1,035,074	1,042,342	1,045,498
Other Operating Expenses	1,481,627	1,560,088	1,718,678	2,986,364	2,811,093	2,721,796
Debt Service Expenses	38,685,254	39,958,754	41,238,457	54,293,051	65,565,904	76,457,019
Total Operating Expenses	40,995,348	42,459,366	43,935,912	58,314,489	69,419,339	80,224,313
Operating Income (Loss)	1,793,286	6,002,507	1,806,282	1,986,910	2,185,601	2,404,161
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	(1,782)	-	-	-
Federal Indirect Cost Recoveries	12,943	7,105	7,450	-	-	-
Other Nonoperating Revenues (Expenses)	238,508	396,721	236,604	250,000	250,000	250,000
Net Nonoperating Revenues (Expenses)	251,451	403,826	242,272	250,000	250,000	250,000
Income (Loss) Before Operating Transfers	2,044,737	6,406,333	2,048,554	2,236,910	2,435,601	2,654,161
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	2,044,737	6,406,333	2,048,554	2,236,910	2,435,601	2,654,161
Total Net Assets- July 1 - As Restated	124,872,438	126,917,175	133,323,508	135,369,714	137,606,624	140,042,225
Prior Period Adjustments	-	-	(2,348)	-	-	-
Depreciation adjustment	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	124,872,438	126,917,175	133,321,160	135,369,714	137,606,624	140,042,225
Net Assets- June 30	126,917,175	133,323,508	135,369,714	137,606,624	140,042,225	142,696,386
60 days of expenses (Total Operating Expenses divided by 6)	6,832,558	7,076,561	7,322,652	9,719,082	11,569,890	13,370,719

2009 Biennium Report on Internal Service and Enterprise Funds (Continued)

Fee	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Reservation fees-Single Family Program	1/2 of 1 % of the loan amount reserved	Fee was terminated	No Change	No Change	No Change	No Change
Cancellation fees-Single Family Program		1/2 of 1 % of the loan amount reserved	No Change	No Change	No Change	No Change
Extension Fee	1/4 of 1% of the loan amt for 30 days	No Change	No Change	No Change	No Change	No Change
Late Fee	1/2 of 1% of the loan amt for 30 days	No Change	No Change	No Change	No Change	No Change
Pre 1980 Single Family Programs	1 1/2% spread between mortgage interest rate and bond yield. No limit on investment earnings	No Change	No Change	No Change	No Change	No Change
Post Single Family Programs	1 1/8% spread between mortgage interest rate and bond yield. Investment earnings limited to the bond yield	No Change	No Change	No Change	No Change	No Change
Pre 1986 Multifamily Program	1 1/2% spread between the mortgage interest rate and the bond yield. No limit on investment earnings	No Change	No Change	No Change	No Change	No Change
Post 1986 Multifamily Program	1 1/2% spread between the mortgage interest rate and the bond yield. Investment earnings limited to the bond yield	No Change	No Change	No Change	No Change	No Change
Multifamily Reservation Fee	up to 1% of the loan amount reserved	No Change	No Change	No Change	No Change	No Change
Reservation fees-Low Income Tax Credit Program (LIT 4	1/2% of the tax credit amount reserved	No Change	No Change	No Change	No Change	No Change
Compliance monitoring fee-Low Income Tax Credit Pro	\$20 per unit	No Change	\$25 per unit	No Change	No Change	No Change
Interest income on reverse annuity mortgage loans (R/ 5% (new) 7% (old) loans		No Change	No Change	No Change	No Change	No Change
Housing Revolving Loan Fund (HRLA)			variable rates ranging from 2% to 6%	No Change	No Change	No Change
Interest on Investments	STIP investment rate	No Change	No Change	No Change	No Change	No Change

Proprietary Rate Explanation**Proprietary Program Description
HUD Section 8 Housing**

There are two HUD Section 8 Housing programs.

The Project Based Section 8 program is the HUD contract administrator for low-income rental properties HUD subsidizes throughout the state. The program provides rental assistance to projects at fixed locations. Landlords perform administrative tasks at the local level. The agency performs annual property reviews, oversees property management, and makes rent subsidy payments to owners. The agency earns fees from HUD under a performance-based contract for the tasks performed. The program provides 4,268 rental housing units in 100 projects for low income and elderly families in the state.

The Tenant Based Section 8 program provides rent assistance for very low income families, including elderly and disabled, to ensure they have decent, safe, and sanitary housing. Leases are entered on the open rental market between tenants and private landlords. The program makes a subsidy payment to the property owner on behalf of the tenant. Payments are based on applicable unit rent limits and tenants generally pay 30 percent of their income towards rent and utilities. Approximately 4,100 families are served in this program.

The HUD Section 8 Housing programs are funded by two enterprise funds (accounting entities 06075 and 06074) with revenues derived from the HUD performance based annual contribution contracts.

The Section 8 Housing programs are primarily mandated in 24 CFR Parts 5, 8, 35, 792, 813, 880, 882, 883, 887, 888, 891, 903, 982, 984 and 985 of the Code of Federal Regulations Section 8 Housing authorization and the Governor's Executive Order 27-81 Authorization of Section 8 Housing.

Proprietary Revenues and Expenses

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the Section 8 programs workload and customer level will remain constant.

The administration side of the program does not currently make enough from HUD to fully fund administrative operations, so retained earnings, and interest on them are used to make up the difference between needed revenues and administration expenses for the program. It is anticipated that the retained earnings will continue to fund the program indefinitely, unless there are more negative changes upcoming from HUD. The retained earnings are limited to use for operation of the program by federal code.

The Project Based Section 8 Contract Administration is funded through a performance based contract with HUD, based on a 5 year renewable RFP. The program is entering its seventh year, and the department expects HUD to extend the contract in future years, as it has obtained an outstanding review score in most years it has administered the program. Administrative costs are paid as a fixed percent of the HUD fair market rent, currently 2 percent, with a provision for another 1 percent awarded for superior performance, or 1 percent removed for failure to perform. The amounts received are based in 17 different incentive based performance standards, each of which is evaluated by HUD. Retained earnings are to be used for operations of this program. Funding for rents is paid by HUD, based on actual contracts negotiated between the department and the 107 individual owners of the projects, set up on a procedure dictated by HUD.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Project Based Section 8 program is authorized 7.00 FTE and the Tenant Based Section 8 program is authorized 12.00 FTE; for a total 19.00 FTE.

There has not been any significant program, service, or customer base change since the last session; however the federal government has proposed maintaining the levels of funding for the Housing Choice Vouchers program with only a minor increase effectively allowing the program to serve fewer families with rising costs for rent and utilities.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6074	SEC 8 Project Based	65010	Dept. of Commerce	Housing Division - PB Section 8

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Administration Fees	-	-	-	-	-	-
Investment Earnings	8,678	28,136	49,866	10,500	10,500	10,500
Securities Lending Income	-	-	741	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	16,020,550	17,199,810	17,258,134	19,986,185	20,197,986	21,006,326
Total Operating Revenue	16,029,228	17,227,946	17,308,741	19,996,685	20,208,486	21,016,826
Operating Expenses:						
Personal Services	311,745	328,073	322,422	318,024	352,156	353,750
Other Operating Expenses	15,374,536	16,603,368	16,600,360	19,425,284	19,018,801	20,327,165
Total Operating Expenses	15,686,281	16,931,441	16,922,782	19,743,308	19,370,957	20,680,915
Operating Income (Loss)	342,947	296,505	385,959	253,377	837,529	335,911
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(3,932)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(3,932)	-	-	-	-
Income (Loss) Before Operating Transfers	342,947	292,573	385,959	253,377	837,529	335,911
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	342,947	292,573	385,959	253,377	837,529	335,911
Total Net Assets- July 1 - As Restated	-	980,042	1,272,600	1,658,559	1,911,936	2,749,465
Prior Period Adjustments	637,095	(15)	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	-	-	1,272,600	1,658,559	1,911,936	2,749,465
Net Assets- June 30	980,042	1,272,600	1,658,559	1,911,936	2,749,465	3,085,376
60 days of expenses (Total Operating Expenses divided by 6)	2,614,380	2,821,907	2,820,464	3,290,551	3,228,493	3,446,819

Requested Rates for Enterprise Funds

Fee/Rate Information

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Administration Contract						
Rate	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Base fee rate paid by HUD = 2% time Fair Market Rent for all projects under ACC contract for standard performance, as judged by HUD monthly, quarterly, and annually.						
Administration Contract						
Rate	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Performance fee incentive rate based on 17 Incentive Based Performance Standards (IBPS), graded monthly, quarterly, and annually by HUD. Can be either positive or negative, based on whether time standards and performance requirements are met on each of the 17 IBPS standards.						
Rate 3 (per unit)						
Rents Contract						
Rate	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Amounts for rentals are based on 100% of contracted amounts per unit each month, less tenant share of rents.						

Use this space for any specific narrative description of the enterprise rates requested. A detailed published record must be kept in the agency's files.

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Fund	Fund Name	Agency #	Program Name
6075	HUD Section 8 Housing Program	65010	Housing Division - TB Section 8

	Actual FY04	Actual FY05	Actual FY06	Budgeted FY07	Budgeted FY08	Budgeted FY09
Operating Revenues:						
Fee revenue						
Administration Fees	-	-	-	-	-	-
Investment Earnings	35,246	55,222	139,909	43,000	43,000	43,000
Securities Lending Income	-	-	2,339	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	18,354,340	19,011,953	18,420,738	21,844,003	22,719,483	23,629,981
Total Operating Revenue	18,389,586	19,067,175	18,562,986	21,887,003	22,762,483	23,672,981
Operating Expenses:						
Personal Services	528,932	504,234	500,762	576,991	552,330	552,989
Other Operating Expenses	18,870,921	18,502,975	17,726,058	22,716,265	20,164,381	21,426,354
Total Operating Expenses	19,399,853	19,007,209	18,226,820	23,293,256	20,716,711	21,979,343
Operating Income (Loss)	(1,010,267)	59,966	336,166	(1,406,253)	2,045,772	1,693,638
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(1,010,267)	59,966	336,166	(1,406,253)	2,045,772	1,693,638
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(1,010,267)	59,966	336,166	(1,406,253)	2,045,772	1,693,638
Total Net Assets- July 1 - As Restated	-	1,814,181	1,874,147	2,210,313	804,060	2,849,832
Prior Period Adjustments	2,824,448	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	2,824,448	1,814,181	1,874,147	2,210,313	804,060	2,849,832
Net Assets- June 30	1,814,181	1,874,147	2,210,313	804,060	2,849,832	4,543,470
60 days of expenses (Total Operating Expenses divided by 6)	3,233,309	3,167,868	3,037,803	3,882,209	3,452,785	3,663,224

Requested Rates for Enterprise Funds Fee/Rate Information

	Actual FYE 04	Actual FY 05	Actual FY 06	Budgeted FY 07	Budgeted FY08	Budgeted FY09
Administration Contract Rate	\$45.79	\$45.79	\$45.71	\$46.25	\$46.80	\$47.34
Base fee rate paid by HUD = \$45.79 per unit per month under lease for Housing Choice Vouchers, and \$45.79 per month for each unit under HAP contract on Mod Rehab. Estimate increases of 3.5% per year for FY 2006 and FY 2007.						
Hard to House Fees Rate	\$75.00	\$75.00	\$75.00	\$75.00	\$75.00	\$75.00
Under HUD contract, for every family with 3 or more minors which either leases the first time or moves; HUD will pay a fee of \$75.00.						
Homeownership Start-up Fee Rate	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00
Under HUD contract, for every family the program starts in Homeownership Vouchers Homeownership Assistance, HUD allows a fee of \$1,000.						
Project Based Section 8 Opt-Out Start-up Fee Rate	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00	\$250.00
Under HUD contract, for every unit HUD approves transferring from Project Based Section 8 to the Housing Choice Vouchers Program, HUD provides reimbursement of start-up expenses of \$250.						
Rents Contract Rate	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Amounts for rentals are based on 100% of contracted amounts per unit each month, less tenant share of rents.						

Program Description

The Board of Investments invests all state funds in the Unified Investment Program, established under Article VIII, Section 13 of the Montana Constitution. Local governments may invest in the Short-Term Investment Pool (STIP). The board manages seven investment pools, which operate like mutual funds.

- Retirement Funds Bond Pool
- Trust Funds Bond Pool
- Short Term Investment Pool
- Montana Domestic Stock Pool
- Montana International Equity Pool
- Montana Private Equity Pool
- Montana Real Estate Pool

Annual audited financial statements are prepared for each investment pool. Investments not managed in pools are included in an "all other funds" financial statement. The In-State Investment Program consists of Montana residential mortgages purchased by the state's two large pension funds and commercial loans funded by the Coal Tax Trust. The board also issues tax-exempt bonds and lends the proceeds to eligible government agencies for a variety of purposes.

In addition to the board's investment responsibilities, it is charged with creating solutions to financial issues facing new and expanding businesses in the State of Montana. To accomplish this goal, the board administers a number of different loan programs that can be specifically tailored to meet an individual business' or local government's needs.

The Board of Investments is funded with both enterprise and internal service type proprietary funds, and no direct appropriations are provided in HB 2.

Board of Investment responsibilities are outlined primarily in Article VIII, Section 13 of the Montana Constitution, Title 2, Chapter 15, and Title 17, Chapters 5 and 6, MCA.

Proprietary Program Description**Unified Investment Program**

The Board of Investments manages the Unified Investment Program mandated by Article VIII, Section 13 of the Montana Constitution. Section 17-6-201, created the Board of Investments, and gave the board sole authority to invest state funds. The board also invests local government funds at their discretion. The board currently manages an investment portfolio with a market value of approximately \$11.2 billion. The board manages the portfolio under the "prudent expert principle."

To provide for diversification and reduced risk, the board manages several investment pools in which funds of similar types are invested. The Legislative Auditor audits the board annually. The board consists of nine members appointed by the Governor.

In-State Investments

Section 17-6-305, MCA authorizes the board to invest up to 25 percent of the Permanent Coal Tax Trust Fund to assist Montana's economic development. This "In-State Investment Program" makes business loans from the trust in participation with financial institutions. The board lends trust fund monies to local governments to fund infrastructure that will serve job-creating businesses locating in the government's jurisdiction. The board also lends low-interest monies funded from the trust to value-added type businesses creating jobs. Throughout FY 2006, the board purchased Montana residential mortgages with pension funds as part of the In-State Investment Program.

INTERCAP Program

The board sells tax-exempt bonds and lends the proceeds to eligible governments for a variety of projects. Loan terms range from one to ten years, and short-term loans to finance cash flow deficits or bridge financing are also available. The INTERCAP and In-State Investment Programs were created in fiscal year 1984 as part of the "Build Montana" program.

Board of Investments customers include: state agencies, the university system, local governments, financial institutions, and local economic development organizations.

There has been no significant change in the services provided by the Board of Investments from those provided in the last biennium, although the investment portfolio continues to grow in size and complexity.

Proprietary Revenues and Expenses**Revenue Description**

The Board of Investments is funded by two proprietary fund types. Accounting entity 06014, an enterprise fund, funds the INTERCAP or bond programs. Accounting entity 06527, an internal service fund, funds the Investment Programs.

Nearly all bond program revenues are generated by the difference between interest rates on bonds sold and the interest rate charged on loans to borrowers. Since these revenues are only received from the trustee on an annual basis, a 270 day fund balance is required to provide adequate funding for the bond program between draws. Remaining revenues are received monthly from the board's contract with the Montana Facility Finance Authority.

Nearly all investment program revenues are generated from charges to each account that the board invests. The revenue objective of the Investment Program is to fairly assess the costs of operations while maintaining a reasonable and prudent 60 day working capital reserve.

The Board of Investments does not receive any direct appropriations.

Expense Description

The major cost drivers within the Board of Investments are personal services, operating expenses and expenditures related to the periodic replacement of computer equipment. Additionally, over \$3.068 million was disbursed from accounting entity 06014 in FY 2006 via a statutory appropriation for debt service requirements related to the state's bonding activity.

Please note that accounting entity 06527 also pays for 1.00 FTE in the Treasurers' Office in the Department of Administration through a direct appropriation in HB 2.

There is little uncertainty in forecasting major cost drivers and for the purposes of this analysis it is assumed the division's workload and customer levels will remain constant, although investment portfolios will continue to grow in size and complexity.

Non-typical and one time only expenses, if any, are subtracted from proposed budgets. The Board of Investments is authorized 34.00 FTE (approximately 30.00 funded from accounting entity 06527, and 4.00 funded from accounting entity 06014) and personal services expenditures include board member per diem.

Proprietary Rate Explanation

The Board of Investments recovers its costs from the entities that use its services. Typically, this has been done by requesting a maximum level of expenditures similar to what occurs in HB 2 and setting the fee at that level. This methodology is continued in the 2009 biennium because it provides an easy comparison with historical financial activity.

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Fund 6527	Fund Name Investment Division	Agency # 65010	Agency Name Dept. of Commerce	Program Name Board of Investments				
			Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Operating Revenues:								
Revenue								
Administrative Fees			2,958,910	2,963,764	3,224,490	3,128,734	4,664,072	4,664,072
Investment Earnings			-	-	-	-	-	-
Securities Lending Income			-	-	-	-	-	-
Premiums			-	-	-	-	-	-
Other Operating Revenues			-	-	-	-	-	-
Total Operating Revenue			2,958,910	2,963,764	3,224,490	3,128,734	4,664,072	4,664,072
Operating Expenses:								
Operating Expenses								
Personal Services			2,024,742	1,779,348	1,884,259	2,345,733	2,422,450	2,415,651
Other Operating Expenses			822,509	1,476,351	1,603,959	1,669,724	2,207,413	1,974,897
Total Operating Expenses			2,847,251	3,255,699	3,488,218	4,015,457	4,629,863	4,390,548
Operating Income (Loss)			111,659	(291,935)	(263,728)	(886,723)	34,209	273,524
Nonoperating Revenues (Expenses):								
Gain (Loss) Sale of Fixed Assets			-	(3,482)	-	-	-	-
Federal Indirect Cost Recoveries			-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)			-	-	-	-	-	-
Total Nonoperating Revenues (Expenses)			-	(3,482)	-	-	-	-
Income (Loss) Before Operating Transfers			111,659	(295,417)	(263,728)	(886,723)	34,209	273,524
Contributed Capital			-	-	-	-	-	-
Operating Transfers In (Note 13)			-	-	-	900,000	-	-
Operating Transfers Out (Note 13)			-	-	-	-	-	-
Change in net assets			111,659	(295,417)	(263,728)	13,277	34,209	273,524
Total Net Assets- July 1 - As Restated			662,048	773,707	478,290	214,562	227,839	262,048
Prior Period Adjustments			-	-	-	-	-	-
Cumulative effect of account change			-	-	-	-	-	-
Total Net Assets - July 1 - As Restated			662,048	773,707	478,290	214,562	227,839	262,048
Net Assets- June 30 (Fund Balance)			773,707	478,290	214,562	227,839	262,048	535,572
Current Assets			130,843	129,476	152,424	181,385	188,640	196,186
Working Capital			904,550	607,766	366,986	409,224	450,688	731,758
60 days of expenses								
(Total Operating Expenses divided by 6)			474,542	542,617	581,370	669,243	771,644	731,758

Requested Rates for Internal Service Funds						
Fee/Rate Information for Legislative Action						
	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
BOI Administrative Fee Rate	\$2,958,910	\$2,963,764	\$3,224,490	\$3,128,734	\$4,664,072	\$4,664,072
Allocation Methodology: The revenue objective of the Board of Investments is to assess the costs of operations to each portfolio the Board invests while attempting to maintain a reasonable and prudent 60 day working capital reserve.						

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Fund	Fund Name	Agency #	Agency Name	Program Name
6014	Industrial Revenue Bond I-95	65010	Dept. of Commerce	Board of Investments

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Operating Revenues:						
Fee revenue						
Fee Revenues	7,939	4,671	6,794	13,000	13,000	13,000
Investment Earnings	82,642	636,922	570,078	501,426	793,135	816,929
Securities Lending Income	-	-	259			
Premiums	-	-	-			
Other Operating Revenues	2,161,416	2,125,547	3,049,576	3,614,669	5,338,398	5,382,885
Total Operating Revenue	2,251,997	2,767,140	3,626,707	4,129,095	6,144,533	6,212,814
Operating Expenses:						
Personal Services	186,075	252,489	249,637	266,950	277,628	288,733
Operating Expenses	158,927	183,086	122,185	119,120	122,372	126,267
Debt Service Expenses	1,851,563	2,190,826	3,068,932	3,696,131	5,621,546	5,781,182
Total Operating Expenses	2,196,565	2,626,401	3,440,754	4,082,201	6,021,546	6,196,182
Operating Income (Loss)	55,432	140,739	185,953	46,894	122,987	16,632
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	(2,945)	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	(2,945)	-	-	-	-
Income (Loss) Before Operating Transfers	55,432	137,794	185,953	46,894	122,987	16,632
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	(900,000)	-	-
Change in net assets	55,432	137,794	185,953	(853,106)	122,987	16,632
Total Net Assets- July 1 - As Restated	4,975,121	5,030,553	5,168,347	5,354,300	4,501,194	4,624,181
Prior Period Adjustments	-	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	4,975,121	5,030,553	5,168,347	5,354,300	4,501,194	4,624,181
Net Assets- June 30	5,030,553	5,168,347	5,354,300	4,501,194	4,624,181	4,640,813
60 days of expenses (Total Operating Expenses divided by 6)	366,094	437,734	573,459	680,367	1,003,591	1,032,697

Requested Rates for Enterprise Funds
Fee/Rate Information

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Budgeted Revenues						
Fees & Investment Revenues	\$2,161,416	\$2,767,141	\$3,626,449	\$4,129,095	6,144,533	6,212,814

Proprietary Significant Present Law

The Board of Investments accounting entity 06527 has two decision packages which affect portfolio assessments.

The executive budget proposes two present law adjustments based on the board's governing "prudent expert" statute that requires it to minimize risk and maximize return

DP 7501 – BOI Investment Research & Investment Tools – The executive budget recommends increasing the board budget \$390,000 annually for the following investment research and tools:

- 1) General investment consultant to assist in asset allocation, conduct pension fund asset/liability studies, and assist in the selection and monitoring of external investment managers, at an annual additional cost of \$105,000;
- 2) Specialist real estate consultant to search for and assist in finding real estate managers for the new real estate pool created by the board, at an annual cost of \$150,000;
- 3) Anticipated cost increase for the financial system software used by the board staff to provide security research and portfolio order management, at an additional annual cost of \$75,000; and
- 4) Additional research tools, at an additional annual cost of \$60,000.

The total cost of this decision package is \$390,000 in FY 2008 and FY 2009 and is funded from accounting entity 06527. The executive estimates this decision package would impact assessments as follows:

	FY 2008	FY 2009
Requested Fee Assessment	\$4,664,072	\$4,664,072
Decision Package Amount	\$390,000	\$ 390,000
Variance:	\$4,274,072	\$4,274,072

DP 7502 - Administrative Costs Adjustments – The executive budget adds \$225,822 in FY 2008 and \$83,968 in FY 2009 and is funded from the board's internal service fund which derives revenue from administrative fee assessments. Items requested include adjustments for overtime, per diem, rent adjustments, and indirect cost adjustments. The proposal would also provide for asset/liability studies of seven smaller pension funds at an estimated cost of \$140,000 in FY 2008 only ($\$20,000 * 7 = \$140,000$). The executive estimates this decision package would impact assessments as follows:

	FY 2008	FY 2009
Requested Fee Assessment	\$4,664,072	\$4,664,072
Decision Package Amount	\$ 225,822	\$ 83,968
Variance:	\$4,438,250	\$4,580,104

Proprietary New Proposals

There are no new proposals for accounting entity 06527.

Program Proposed Budget

The following table summarizes the total executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2006	PL Base Adjustment Fiscal 2008	New Proposals Fiscal 2008	Total Exec. Budget Fiscal 2008	PL Base Adjustment Fiscal 2009	New Proposals Fiscal 2009	Total Exec. Budget Fiscal 2009	Total Exec. Budget Fiscal 08-09
FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Grants	625,646	100,000	0	725,646	100,000	0	725,646	1,451,292
Total Costs	\$625,646	\$100,000	\$0	\$725,646	\$100,000	\$0	\$725,646	\$1,451,292
Federal Special	625,646	100,000	0	725,646	100,000	0	725,646	1,451,292
Total Funds	\$625,646	\$100,000	\$0	\$725,646	\$100,000	\$0	\$725,646	\$1,451,292

Program Description

The Director's Office/Management Services Division consists of three programs:

- The Director's Office assists the department with executive, administrative, legal, and policy guidance. This office acts as the liaison among private business, local governments, administratively attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor's office in the effort to improve and stabilize the economic climate in Montana.
- The Management Services Division provides internal support to all agency divisions, bureaus, and programs. Services provided by the Management Services Division include accounting, budgeting, fiscal management, contracting, purchasing, information technology, human resources, payroll, benefits, and training.
- The Montana Council on Developmental Disabilities provides planning that assists Montanans with disabilities to live, work, and participate in their communities.

The Director's Office/Management Services Division responsibilities are mandated primarily in Title 2, Chapter 15 and Title 90, Chapter 1, MCA. The Montana Council on Developmental Disabilities' responsibilities are mandated primarily in Title 53, Chapter 20, MCA.

Program Highlights

Director/Management Services Division	
Major Budget Highlights	
◆	Executive budget adds \$100,000 federal grant authority each year for Montana Council on Developmental Disabilities
Major LFD Issues	
◆	None

Funding

The following table shows program funding, by source, for the base year and for the 2009 biennium as recommended by the executive.

Program Funding Table Director/Management Serv						
Program Funding	Base FY 2006	% of Base FY 2006	Budget FY 2008	% of Budget FY 2008	Budget FY 2009	% of Budget FY 2009
03000 Total Federal Special Funds	\$ 625,646	100.0%	\$ 725,646	100.0%	\$ 725,646	100.0%
03441 Ddpac - Dev Disabled Council	625,646	100.0%	725,646	100.0%	725,646	100.0%
Grand Total	\$ 625,646	100.0%	\$ 725,646	100.0%	\$ 725,646	100.0%

The Montana Council on Developmental Disabilities is entirely funded with federal special revenues and is shown in the proposed budget table in this narrative. The Director's Office/Management Services Division is funded by an internal service proprietary fund from indirect costs charged to all agency programs.

LFD COMMENT

For a more detailed explanation on indirect costs charged to each program, and the basis for assessing indirect costs, refer to the discussion on rates contained in the program narrative at the end of this program.

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
Fiscal 2008						Fiscal 2009				
FTE	General Fund	State Special	Federal Special	Total Funds		FTE	General Fund	State Special	Federal Special	Total Funds
DP 8105 - MSD MCDD Federal Grants Adjustment HB0002										
0.00	0	0	100,000	100,000		0.00	0	0	100,000	100,000
Total Other Present Law Adjustments										
0.00	\$0	\$0	\$100,000	\$100,000		0.00	\$0	\$0	\$100,000	\$100,000
Grand Total All Present Law Adjustments				\$100,000						\$100,000

DP 8105 - MSD MCDD Federal Grants Adjustment HB0002 - The executive budget adds \$100,000 federal special revenue authority each year of the 2009 biennium for increased grants for the Montana Council on Developmental Disabilities.

Proprietary Rates

Proprietary Program Description

The Director's Office assists the department with executive, administrative, legal, and policy guidance. This office acts as the liaison among private business, local governments, administratively-attached boards, public and private interest groups, the legislature, Indian tribes, individuals, and the Governor's office in the effort to improve and stabilize the economic climate in Montana.

The Management Services Division provides internal support to all agency divisions, bureaus, and programs. Services provided by the Management Services Division include accounting, budgeting, fiscal management, contracting, purchasing, information technology, human resources, payroll, benefits, and training.

Proprietary Revenues and Expenses

Revenue Description:

The Director's Office/Management Services Division; is funded by revenues from charges allocated to all divisions, bureaus, and programs supported by the divisions indirect cost plan. Indirect costs are allocated to supported programs based upon federally calculated, and legislatively approved indirect cost rates applied to actual personal services expenditures.

Expense Description:

The major cost drivers within the Director's Office/Management Services Division are personal services, operating expenses and expenditures related to the periodic replacement of the agency's computer equipment.

Non-typical and one-time-only expenses are subtracted out of the division's future cost projections before calculating the indirect rate. For the purposes of projecting the indirect rate for the 2009 biennium, it is assumed the agency's divisions, bureaus, programs, and staff remains constant. The proposed indirect cost rate would fund 17.00 FTE in the 2009 biennium, 0.50 FTE more than the number of FTE approved in the 2007 biennium.

Working Capital Discussion:

The division's indirect cost rate is calculated by dividing projected annual expenses, plus a nominal 60 day working capital reserve, by the projected actual personal services expenses of supported divisions, bureaus, and programs. Federally funded programs are allocated indirect costs by an annually calculated indirect cost rate, while state funded programs are allocated indirect costs via a legislatively approved indirect cost rate.

The division's working capital objective is to recover the costs necessary to fund the division's ongoing operations. The division needs to maintain a nominal 60 day working capital reserve to meet ongoing operational costs.

Fund Equity and Reserved Fund Balance:

At the proposed rates, the department projects a fiscal year end 2009 ending working capital reserve of approximately 60 days. All interest earnings on the working capital reserve are distributed to the state general fund.

Proprietary Rate Explanation

Rate Explanation:

The division negotiates a federal indirect cost rate on an annual basis. The negotiated rate is a fixed rate for federally funded programs. This rate is then applied against actual federally funded personal services expenditures within the department, not including the Director's Office/ Management Services Division.

The federally calculated rate requires that a carry-forward amount be built into the rate. This carry-forward amount represents the amount the division under-recovered or over-recovered in a given fiscal year. This computation compares what was originally calculated to what actually occurred. The difference is then carried forward into the following year's rate.

The division's indirect cost rate is determined based on guidelines prescribed by the federal government. Additionally, the division complies with 17-3-111, MCA, which requires agencies to calculate a rate that would recover indirect costs to the greatest extent possible. In order to comply with this statute, the division has requested a rate that may vary slightly from the annually calculated federal rate. The rate approved by the legislature is considered a cap; therefore, the division cannot impose a rate higher than what has been approved by the legislature. However, the annually calculated federal rate may be slightly lower.

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Fund	Fund Name	Agency #	Agency Name	Program Name
6542	Commerce Centralized Services	65010	Dept. of Commerce	Director/Management Services

	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
Operating Revenues:						
Fee revenue						
Administrative Fees	896,437	954,738	1,216,759	1,270,000	1,336,017	1,318,972
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	57,278	25,000	25,012	25,000	25,000	25,000
Total Operating Revenue	953,715	979,738	1,241,771	1,295,000	1,361,017	1,343,972
Operating Expenses:						
Personal Services	859,583	911,124	1,005,708	1,042,734	1,117,949	1,122,181
Other Operating Expenses	206,479	203,192	216,565	228,433	313,761	233,264
Total Operating Expenses	1,066,062	1,114,316	1,222,273	1,271,167	1,431,710	1,355,445
Operating Income (Loss)	(112,347)	(134,578)	19,498	23,833	(70,693)	(11,473)
Nonoperating Revenues (Expenses):						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	(112,347)	(134,578)	19,498	23,833	(70,693)	(11,473)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	(112,347)	(134,578)	19,498	23,833	(70,693)	(11,473)
Total Net Assets- July 1 - As Restated	412,246	299,599	165,021	184,519	208,352	137,659
Prior Period Adjustments	(300)	-	-	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	411,946	299,599	165,021	184,519	208,352	137,659
Net Assets- June 30 (Fund Balance)	299,599	165,021	184,519	208,352	137,659	126,186
Add Non Current Assets	85,722	88,876	91,775	94,775	97,775	100,775
Working Capital	385,321	253,897	276,294	303,127	235,434	226,961
60 days of expenses (Total Operating Expenses divided by 6)	177,677	185,719	203,712	211,861	238,618	225,908

Requested Rates for Internal Service Funds						
Fee/Rate Information						
	Actual FYE 04	Actual FYE 05	Actual FYE 06	Budgeted FY 07	Budgeted FY 08	Budgeted FY 09
State Programs						
Indirect Cost Rate	15.00%	15.00%	13.70%	13.65%	14.00%	13.75%
Federal Programs						
Indirect Cost Rate	15.00%	15.00%	13.70%	13.65%	14.00%	13.75%
Allocation Methodology: Indirect costs for the Director's Office/Management Services Division are allocated to supported programs via a federally calculated indirect cost plan for federally funded programs, and a legislatively approved rate for state funded programs. Indirect cost rates are charged to supported programs based upon actual personal services expenditures.						
Authority: Federally calculated indirect cost plan for federally funded programs, and legislatively approved rate for state funded programs. FY 2008 and FY 2009 federal rate is an estimated rate.						

Proprietary Significant Present Law

The executive budget recommends present law adjustments for the replacement of the Department's main file servers and disk storage units; the addition of 0.50 FTE to be used to enhance the agencies web presence; and administrative costs, such as overtime, computer equipment based upon 4 year replacement schedules, and annual rent increases.

The impact of these present law proposals on the requested rate is shown below.

Hardware Replacements OTO:

	FY 2008	FY 2009
2009 Biennium Requested Rate	14.000%	13.750%
2009 Biennium Rate W/O Hardware	13.130%	13.645%
Variance:	0.87%	0.105%

Web Developer:

	FY 2008	FY 2009
2009 Biennium Requested Rate	14.000%	13.750%
2009 Biennium Rate W/O Web Dev.	13.645%	13.432%
Variance:	0.355%	0.318%

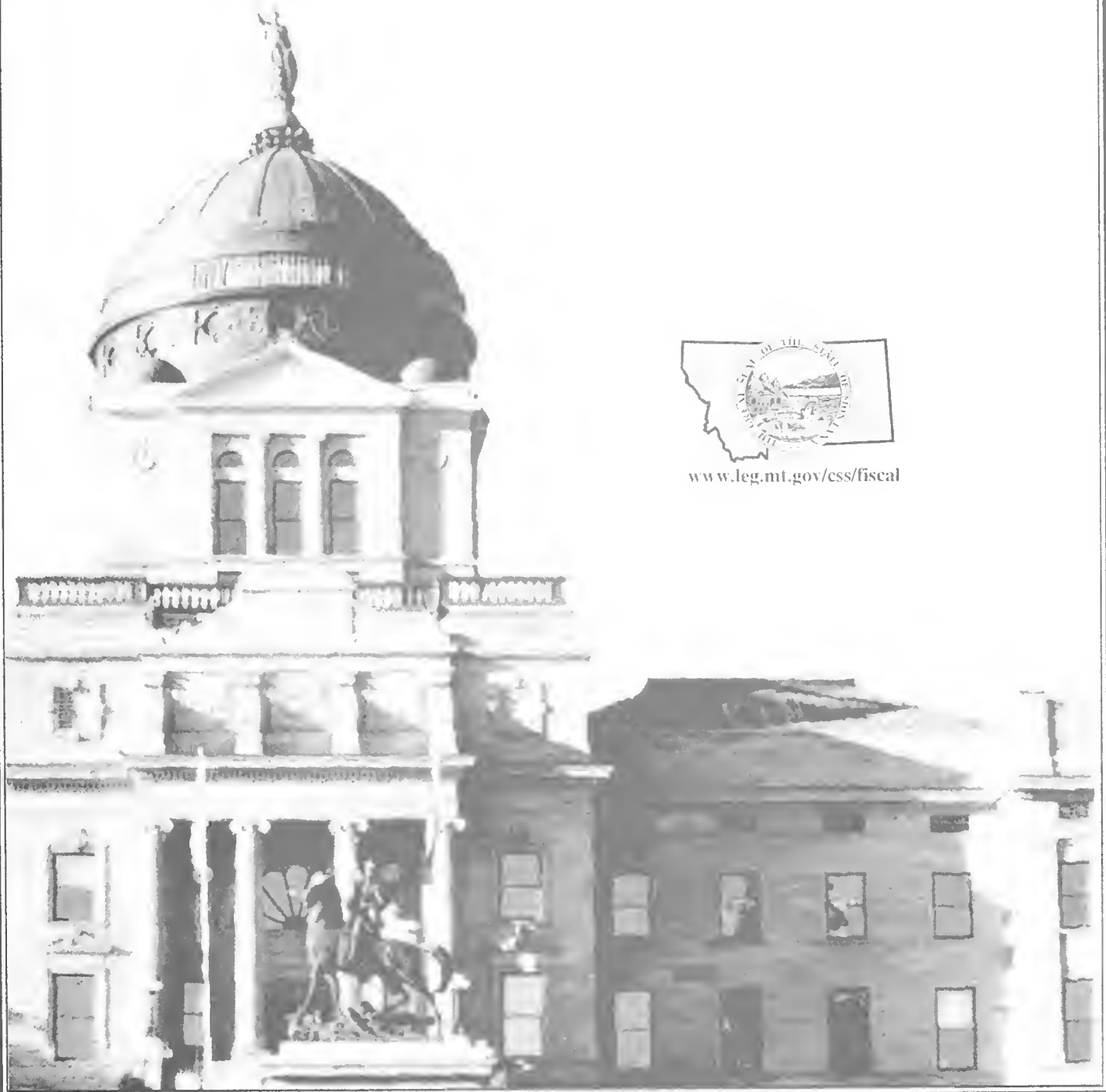
Administrative Costs:

	FY 2008	FY 2009
2009 Biennium Requested Rate	14.000%	13.750%
2009 Biennium Rate W/O Admin Costs	13.831%	13.635%
Variance:	0.169%	0.115%

Proprietary New Proposals

There are no new proposals.

Glossary / Acronyms / Index



Glossary

A number of terms are used extensively in budgeting and appropriations. The most common terms, which are used throughout the budget analysis and in other fiscal materials, are listed and defined below.

Appropriations – An authorization by law for the expenditure of funds or to acquire obligations. Types of appropriations are listed below.

Biennial – A biennial appropriation is an appropriation made in the first year of the biennium, where the appropriated amount can be spent in either year of the biennium.

Budget amendment – See “Budget Amendment” below.

Continuing – An appropriation that continues beyond one biennium.

Language – An appropriation made in the language of the general appropriations act for a non-specific or limited dollar amount. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds but is uncertain as to the amount.

Line Item – An appropriation made for a specific purpose and which cannot be used for any other purpose. Line item appropriations highlight certain appropriations and ensure that they can be separately tracked on the state accounting system.

One-time – Appropriations for a one-time purpose that are excluded from the base budget in the next biennium.

Restricted – An appropriation designated for a specific purpose or function.

Statutory – Funds appropriated in permanent law rather than a temporary bill. All statutory appropriations references are listed in 17-7-502, MCA.

Temporary – An appropriation authorized by the legislature in the general appropriations act or in a “cat and dog” bill that is valid only for the biennium.

Appropriation Transfers (also see “Supplemental Appropriation”) – The transfer of funds appropriated for the second year of the biennium to the first if the Governor or other approving authority determines that due to an unforeseen or unanticipated emergency there are insufficient funds in the first year for the operation of an agency.

Approving Authority – The entity designated in law as having the authority to approve certain budgetary changes during the interim. The approving authorities are:

- The Governor or his/her designated representative for executive branch agencies
- The Chief Justice of the Supreme Court or his/her designated representative for the judicial branch agencies
- The Speaker of the House of Representatives for the House;
- The President of the Senate for the Senate
- The appropriate standing legislative committees or designated representative for the legislative branch divisions
- The Board of Regents of Higher Education or their designated representative for the university system

Average Daily Population (ADP) – The population measure used to calculate population in the Montana correctional system. ADP is equivalent to one inmate incarcerated for one year.

Average Number Belonging (ANB) – The enrollment measure used for K-12 BASE aid calculations. ANB is the equivalent of one full-time student enrolled in school for the full school year.

Base – The level of funding authorized by the previous legislature.

Base Budget – The resources needed for the operation of state government that provide for expenses of an ongoing and non-extraordinary nature in the current biennium.

Benefits – An expenditure category used to account for the provision of payments or services by the government to individuals who qualify for receipt of those payments or services, such as Medicaid benefits. Personal services benefits for state employees are included in the personal services expenditure category.

Biennial Appropriation – An appropriation that can be expended in either or both years of the biennium.

Biennium – A two-year period. For the state, this period begins July 1 of the odd-numbered years and ends June 30 of the following odd-numbered year.

Budget Amendments – Temporary authority to spend unanticipated non-general fund revenue received after the legislature adjourns. The funds must be used to provide additional services and cannot make a commitment of general fund support for the present or future.

Cat and Dog Appropriations – One-time appropriations made in bills other than the general appropriations act.

Debt Service – The payment on outstanding bonds.

Decision Package – Separate, specific adjustments to the base budget. Decision packages can be either present law adjustments or new proposals.

Earmarked Revenue – Funds from a specific source that can be spent only for designated activities.

Enterprise Funds – A fund used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs, primarily through user charges.

Federal Special Revenue – Accounts deposited in the state treasury from federal sources, to be used for the operation of state government.

Fiduciary Funds – Funds used to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds.

Fiscal Note - An estimate, prepared by the Office of Budget and Program Planning, of the probable revenues and costs that will be incurred as the result of a bill or joint resolution.

Fiscal Year (FY) aka State Fiscal Year (SFY) – A 12-month accounting period beginning July 1 and ending June 30. Fiscal year 2003 refers to the fiscal year ending June 30, 2003. (Note: The federal fiscal year (FFY) is October 1 through September 30.)

Fixed Costs – Fees (fixed costs) charged to agencies for a variety of services provided by other state agencies (e.g., payroll service fees, rent, warrant writing services, and data network services.).

FTE – Full-Time Equivalent position, or the equivalent of one person working full-time for the entire year. Also used to denote full-time equivalent students in the Montana University System for purposes of calculating state support.

Fund – A fiscal entity with revenues and expenses which are segregated for the purpose of carrying out a specific purpose or activity.

General Fund – Accounts for all governmental financial resources except those that must be accounted for in another fund.

General Fund Reversions – Unspent appropriated funds that are returned to the general fund at the close of the budget period.

Grants – An expenditure category used to account for the payment by a government entity to an individual or other entity who will perform a service.

HB 2 –The General Appropriations Act in which the legislature authorizes the funding for state government for the upcoming biennium. Each session, House Bill 2 is reserved for this purpose.

Indirect Cost – A cost necessary for the functioning of the organization as a whole, but which cannot be directly assigned to a specific division or agency.

Interim – The time between regular legislative sessions.

Internal Service Funds – Funds use to account for the financing of goods and services provided by one department or agency to other departments, agencies, or governmental entities on a cost-reimbursement basis.

IRIS - The Integrated Revenue Information System (IRIS) is an automated system to administer taxes that are the responsibility of the Department of Revenue to collect.

Local Assistance – An expenditure classification primarily used to account for expenditures made for K-12 funding provided by the state to school districts.

MBARS – The Montana Budget Analysis and Reporting System, which provides all state agencies with one computerized system for budget development, maintenance and tracking, and is integrated with the State Accounting, Budget, and Human Resource System (SABHRS).

Mill – The property tax rate based on the valuation of property. A tax rate of one mill produces one dollar of taxes on each \$1,000 of assessed property value.

New Proposals – Requests (decision packages) to provide new non-mandated services, to change program services, to eliminate existing services, or to change the source of funds.

Non-budgeted Expenditures – Accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't actually result in direct dispersal of funds from the state treasury.

Operating Expenses – All operating expenditures that do not meet the personal services and capital outlay classification criteria. These expenditures include, but are not limited to, professional services, supplies, rent, travel, and repair and maintenance.

Other Funds – Capital projects and fiduciary funds.

Capital projects fund – Accounts for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds.

Fiduciary funds – Trust and agency fund types used to account for assets held by state government in a trustee capacity or as an agency for individuals, private organizations, other governmental entities, or other funds.

Pay Plan – Provision by the legislature of a general adjustment to salaries and/or benefits paid to state employees. Also refers to the pay schedule listing the state salary rate for each classified position according to that position's grade and the market rate.

Personal Services – Expenditures for salaries, benefits, per diem, and other additions, such as overtime.

Personal Services Snapshot – The point in time at which personal services attributes are captured and from which the personal services budget is determined. The executive budget personal services costs are based on a "snapshot" of actual salaries for authorized FTE as they existed in a pre-determined pay period in the base year.

Present Law – The additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature.

Present Law Adjustments – Requests (decision packages) for an adjustment in funding sufficient to allow maintenance of operations and services at the level authorized by the previous legislature (e.g., caseload, enrollment changes, and legally mandated workload).

Program – A group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible. Also, a grouping of functions or objectives that provides the basis for legislative review of agency activities for appropriations and accountability purposes.

Proprietary Funds – Enterprise or internal service funds. Statute does not require that most proprietary funds be appropriated.

Enterprise funds – Funds that account for operations financed and operated in a manner similar to private business enterprises, and through which the intent is to provide goods or services to the public.

Internal service funds – Funds that account for the financing of goods or services provided by one department or agency to other departments or agencies of state government.

Reporting Levels – Budget units dividing agency and program budgets into smaller units for the purpose of constructing, analyzing, and approving budgets.

SABHRS – The State Accounting, Budget, and Human Resource System that combines the state's accounting, budgeting, personnel, payroll, and asset management systems into one single system.

State Special Revenue – Accounts for money from state and other nonfederal sources that is earmarked for a particular purpose, as well as money from other non-state or nonfederal sources that is restricted by law or by the terms of an agreement.

Supplemental Appropriation – An additional appropriation made by the governing body after the budget year or biennium has started. There are two types of supplemental appropriations that can be used to increase spending authority for a fiscal year: 1) a transaction in an even-numbered year that moves spending authority from the second year of the biennium to the first year; or 2) an appropriation passed and approved by the legislature to provide authority for the odd-numbered fiscal year ending the current biennium.

Vacancy Savings – The difference between what agencies actually spend for personal services and the cost of fully funding all funded positions for the entire year.

Acronyms

AES	Agricultural Experiment Station	LAD	Legislative Audit Division
ADP	Average Daily Population	LEPO	Legislative Environmental Policy Office
ANB	Average Number Belonging (K-12 education)	LFA	Legislative Fiscal Analyst
ARM	Administrative Rules of Montana	LFC	Legislative Finance Committee
BASE Aid	Base Amount for School Equity Aid	LFD	Legislative Fiscal Division
BPE	Board of Public Education	LRBP	Long Range Building Program
C&A	Cultural and Aesthetic (Trust)	LRP	Long Range Planning
CC	Community Colleges	LSD	Legislative Services Division
CES	Cooperative Extension Service	MAC	Montana Arts Council
CHE	Commissioner of Higher Education	MBARS	Montana Budgeting, Analysis, and Reporting System
CHIP	Children's Health Insurance Program (also SCHIP)	MBCC	Montana Board of Crime Control
CIO	Chief Information Officer	MBMG	Montana Bureau of Mines and Geology
COPP	Commissioner of Political Practices	MCA	Montana Code Annotated
COT	College of Technology, followed by campus designation	MCHA	Montana Comprehensive Health Association
CPI	Consumer Price Index	MDC	Montana Developmental Center
DEQ	Department of Environmental Quality	MDT	Montana Department of Transportation
DMA	Department of Military Affairs	MHP	Montana Highway Patrol
DNRC	Department of Natural Resources and Conservation	MHS	Montana Historical Society
DOA	Department of Administration	MSDB	Montana School for the Deaf and Blind
DOA	Department of Agriculture	MSF	Montana State Fund
DOC	Department of Commerce	MSL	Montana State Library
DOC	Department of Corrections	MSP	Montana State Prison
DOJ	Department of Justice	MSU	Montana State University, followed by campus designation i.e. MSU – Bozeman
DOLI	Department of Labor and Industry	MUS	Montana University System
DOR	Department of Revenue	NP	New Proposal
DP	Decision Package	OBPP	Office of Budget and Program Planning
DPHHS	Department of Public Health and Human Services	OCHE	Office of the Commissioner of Higher Education
FCES	Forestry and Conservation Experiment Station	OPI	Office of Public Instruction
FMAP	Federal Medical Assistance Participation rate (Medicaid)	PERS	Public Employees Retirement System
FSR	Federal Special Revenue	PL	Present Law
FSTS	Fire Services Training School	PSC	Public Service Commission
FTE	Full-Time Equivalent	RIGWA	Resource Indemnity and Groundwater Assessment Tax
FWP	Department of Fish, Wildlife, and Parks	RIT	Resource Indemnity Trust
FFY	Federal Fiscal Year	SABHRS	Statewide Accounting, Budgeting, and Human Resources System
FY	Fiscal Year	SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
FYE	Fiscal Year End	SAO	State Auditor's Office
GAAP	Generally Accepted Accounting Principles	SF&C	Senate Finance and Claims Committee
GF	General Fund	SOS	Secretary of State
GSL	Guaranteed Student Loan	SSR	State Special Revenue
GTB	Guaranteed Tax Base	TANF	Temporary Assistance for Needy Families
HAC	House Appropriations Committee	TRS	Teachers' Retirement System
HSRA	Highways Special Revenue Account	TSEP	Treasure State Endowment Program
I&I	Interest and Income	UM	University of Montana, followed by campus designation i.e. UM – Missoula
IRIS	Integrated Revenue Information System		
IT	Information Technology		
ITSD	Information Technology Services Division		

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